INDIANAPOLIS-MARION COUNTY COUNCIL
TAX INCREMENT FINANCING STUDY COMMISSION

FINAL REPORT

June 29, 2012

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INDIANAPOLIS-MARION COUNTY COUNCIL

TAX INCREMENT FINANCING STUDY COMMISSION

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The Indianapolis-Marion County Council Tax Increment Financing Study Commission was established by City-County Council Resolution 36, 2012. Its charge was to examine Economic Development policies and procedures related to the use of tax increment financing (TIF) in Marion County; to hold public hearings and take public input; and to report to the Council its findings and recommendations for improvement.

The Commission members include three City-County Councillors, the City Controller, the Director of the Indianapolis Bond Bank, the County Auditor, the Chair of the Metropolitan Development Commission and a member of the Indiana General Assembly. Over the course of 8 meetings and more than 24 hours of discussion, presentation and public testimony, the commission members explored the following 10 objectives set by the enacting ordinance:

1) Policies and past practices used in Marion County for the establishment of TIF districts and projects therein;

2) Policies and past practices used in Marion County for the expenditure of TIF district funds and the issuance of debt backed by TIF district funds;

3) Current Marion County TIF districts and associated fund balances, debt obligations and past expenditures;

4) Need for new methods to increase transparency of Marion County TIF districts' funds and the expenditure of those funds, including the establishment of an online database of TIF districts' funds and expenditures and periodic reporting of TIF districts' financial data to the Indianapolis City Controller, Marion County Auditor, the Indianapolis-Marion County Council and taxing districts impacted by TIF;

5) Need for new methods to increase accountability, including the establishment of new performance standards in the establishment of TIF districts to ensure targeting of TIF districts to revitalize blighted areas of Marion County and job creation;

6) Need for performance goals for private development that receives TIF and methods to provide consequences for the failure to achieve those goals;

7) Need for a comprehensive Economic Development plan to ensure the creation and development of TIF districts and projects therein in a coordinated fashion consistent with Economic Development goals of job creation and community revitalization;

8) Need for periodic review of established TIF districts and projects therein to ensure performance towards Economic Development goals;

9) Impact of TIF districts on Marion County taxing districts that depend on property tax revenue and the need to mitigate negative impact to those taxing districts, including development of standards and methods to return excess TIF district funds to those units; and

10) Need to establish methods to dismantle TIF districts that are no longer needed and/or address projects therein that are not achieving economic development goals.

EXECUTIVE SUMMARY

This executive summary encompasses highlights of presentations, documents and data that the Commission received. The full report will provide more detailed discussion of the factors that support the Commission's recommendations, which are summarized in this Executive Summary. The recommendations fall into four broad categories:

1) Clearly define the management and decision-making process for using Tax Increment Financing.
2) Establish transparent financial practices, accounting, reporting and monitoring.
3) By March 1, 2013, develop a strategy to analyze the segments of the Comprehensive Plan, including Neighborhood Plans, to determine areas that need redevelopment or economic improvement. The strategy should identify resources, time-lines, and budgets necessary to develop a county-wide Comprehensive Plan segment for creation of future redevelopment and economic improvement areas.
4) Request changes to policies or requirements of state law.

Detailed recommendations for each of the categories follow this summary of report information.

Tax Increment Financing – Introductory Information

Tax Increment Financing (TIF) is an Economic Development tool used to encourage investment and development within a specified geographical location.[1] A "tax increment" is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF district designation. It is used to pay debt that is borrowed on the expected increment or to directly fund the projects and activities used in redevelopment or economic development projects within the TIF district.

History and Background

TIF was introduced in the 1950s in California and has been implemented in the District of Columbia and every state except Arizona. The use of TIF in Indiana began in the mid-1980s, in South Bend, Fort Wayne and Indianapolis. By 2002, it was widely used across the state. Currently 58 counties have TIF districts.

The initial use of TIF districts was for redevelopment to address blight, deterioration and abandoned, difficult to develop regions in urban areas. Over time, the use has expanded to include economic development areas (EDAs), which include objectives such as job creation and expanding or retaining business.

TIF is widely used to fund infrastructure (roads, bridges, sidewalks and sewers, for example) and to provide gap funding for private developers in development deals.

Enabling Statute for Marion County

Indiana Code (IC) 36-7-15.1-3 establishes the Metropolitan Development Commission (MDC) as the redevelopment commission of the consolidated city of Indianapolis. Three of the excluded cities in Marion County have elected to establish their own redevelopment commissions and are governed by a separate statute (IC 36-7-14). The TIF Study Commission's focus and recommendations are directed toward the TIF policy and practices of the MDC.

[1] For the purposes of this report, the term Economic Development, when spelled with initial capital letters, refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area. When used with lower case or attached to the word area, economic development will refer to the type of tax increment financing project, as distinguished from a redevelopment area or project.

Executive Summary

As the Consolidated City's redevelopment authority, the MDC may establish or expand a redevelopment area (RDA) or economic development area (EDA) as an allocation area for the purpose of capturing incremental tax revenue. This action is subject to City-County Council approval. Usually, allocation areas capture only the increases in the assessed values (AV) of real property; however, in certain instances, personal property can also be included in the increment. The MDC issues TIF revenue bonds, also subject to Council approval, to finance projects.

Permitted Uses of TIF Revenue

Generally, TIF revenues may be used for Economic Development purposes within the TIF district. It may *not* be used for the MDC's operating expenses. Eligible uses include capital project expenditures in the TIF district or elsewhere if the expenditure benefits the TIF, contracting for loan or grant projects through neighborhood development corporations; infrastructure, land acquisition, remediation, clearing and improvement for projects; reimbursements to the City-County for public improvements in or benefitting the TIF district; and workforce training programs.

Strengths and Weaknesses of TIF

TIF is a locally administered program and is relatively autonomous from state and local intervention. It is a politically uncomplicated way to establish a dedicated funding stream for a project. Tax increment financing provides a dedicated funding source and catalyst for Economic Development projects.

On the other hand, TIF removes local elected officials from the decision making about use of public funds (authority is granted to the redevelopment authority, comprised of appointed officials); TIF makes a long term commitment of tax revenues and can be negatively affected by changes in tax laws and the economy.

Current Landscape: The Problem Statement

Since 1983, Marion County has used TIF to facilitate community redevelopment, downtown revitalization, and Economic Development. However, several changes in the policy, tax and fiscal landscape warrant a review of TIF policy and practices.

Changes in Tax Structure

The implementation of property tax caps (circuit breaker) and state takeover of several local levies constricts the property tax revenue flow and makes the base and incremental property tax collections interdependent.

Local Government Funding Crisis

Since 2008, local government units in Marion County have collectively lost more than $366 million in property tax revenue due to circuit breaker tax caps. County Option Income Tax (COIT) revenue has declined by $85 million from its peak.

Lack of Fiscal and Performance Transparency

Information and data about the revenue, debt, reserve funds, and expenditures of TIF districts is incomplete and difficult to obtain. There is no consistent mechanism for monitoring the impact, performance, or return on investment of TIF projects against stated objectives. Until 2012, when the state legislature enacted them, there was no mandatory reporting of TIF-related information.

Managing Excess Property Tax Revenue in TIF Districts

Districts are allowed to accumulate incremental revenue beyond the requirements of debt service to fund pay-as-you-go development projects or to keep as an unreserved balance. There is no required reporting or capital spending planning. As such, there is a great deal of latitude in the ways the excess revenue can be spent. The ability to spend is not subject to review or approval of the Council.

Declining Funding for Infrastructure
Public infrastructure is the responsibility of the Department of Public Works (DPW). DPW primarily funds construction and repairs of infrastructure with state gas receipts, which are declining due to increases in vehicle fuel efficiency without a corresponding adjustment of the gas tax rate. There is a need for countywide coordination of infrastructure planning.

Absence of County-Wide Comprehensive Planning for Economic Development and Infrastructure
The DMD's comprehensive plan was initiated in 2000 – 2006. Plan segments are constantly under review and revision. However, there is concern about a lack of resources to implement a comprehensive planning process that includes coordinate planning, policy and implementation in a holistic manner that goes beyond reactive efforts.

Cost of Funds
TIF has a higher cost of funds than general obligation bonds, given the higher interest rate and the need for reserve funds, which effectively increases interest rate since funds are not used until the end of the bond term (15-20 years).

Stakeholders

The stakeholders who must be considered in a policy review of TIF districts include Marion County citizens, the base taxing units, businesses and private investors and Community Development Organizations.

Marion County Citizens
The tax rates that property owners pay as residents of various taxing units are influenced by the tax increment captured by the TIF districts. The release of the tax increment could result in lowering tax rates for some taxpayers. On the other hand, citizens benefit from increasing property values, which can spur quality of life and make the area more attractive to new residents, whose presence can help lower tax rates.

Base Taxing Units, including City-County Government
Government units and public schools that receive funding from property taxes are affected by changes in tax and TIF policies. For the base taxing units, TIF districts represent a trade-off between foregoing property tax revenue in the near-term in exchange for increased revenue from the higher AV of TIF districts in the long-term. Property tax caps have restricted the amount of increased revenue the units can receive, which restricts the ability to provide government services. Elected officials and selected City-County departments are responsible for TIF policy formation and administration. The officials and departments play various roles in the creation and management of TIF districts.

Businesses and the Private Investors
Private developers and contractors collaborate with the MDC and the DMD on TIF projects to ensure that the project is eligible and has appropriate financing. The involvement of businesses and investors is critical for the success of a TIF district. Businesses often look to government for public subsidies that reduce the cost or increase the return on investment in redevelopment or economic development projects. TIF policies and practices must be balanced to ensure that they do not create the perception of TIF as an entitlement in development projects.

Community Development Organizations
When active, Community Development Organizations help organize community planning; mobilize support for or opposition to Economic Development; act as liaisons between the City-County and their communities; and often view TIF as a critical part of the solution to address community needs.

Establishment of Tax Increment Financing District

The Life Cycle of a TIF District

The TIF has a 5-phase life cycle:

1) ***Initiation***
   Includes a feasibility study, review of established needs, economic benefits, financial feasibility, and area eligibility. The TIF district's relationship to, or impact on, the Marion County Comprehensive Plan must be considered, as well as the availability of public-private partnership opportunities. The "But For" test is applied to determine if the project would occur without funding by TIF. A gap funding analysis is done to determine if public funds are needed to fill a "gap" in the return for potential investors or to pay for infrastructure in the project area.

2) ***Formulation***
   Includes identifying the geographic areas for the allocation area of the TIF district and obtaining approvals of the MDC and City-County Council. During this step, the length of the TIF district's life is established.

3) ***Adoption***
   Occurs in three stages, which includes communication among members, the affected public, the MDC and the City County Council. During this phase, public disclosure is achieved by holding public forums, and the allocation area and project financing are approved by the MDC and the Council.

4) ***Implementation***
   Includes managing the projects (obtaining land, preparing the site, construction and post-construction management) and managing the project finances (issuing bonds, authorizing receipts and disbursements of increment, ensuring appropriate levels of reserves and debt service coverage, and determining how much AV will be passed to the base taxing units each year).

5) ***Termination***
   Involves dissolving the TIF district when all debts are repaid and there are no other planned uses for incremental tax revenue. When the TIF district is terminated, all AV flows to the base taxing unit.

Marion County Policies on TIF Establishment and Strategy

The life-cycle steps create the framework for establishing TIF districts; however, overall policy on TIF use is determined by the Mayor's Economic Development initiatives, management in the DMD, and the authority and oversight of the MDC. The Office of the Mayor and the DMD make policy decisions regarding the establishment of the TIF districts, use of incentives, and current TIF policies and practices. Certain decisions, including establishment and/or expansion of TIF allocation areas and debt issuance, require Council approval. The City's current internal policy on TIF includes the following policy guidelines.

TIF districts or projects should:

- Support neighborhood goals and/or quality-of-life plans
- Connect future redevelopment sites and identify "catalyst projects" within the district
- Be corridor-focused, which sets the stage for future transit improvements and transit-oriented development
- Promote connectivity by linking neighborhoods to anchor institutions (employers, universities), parks, and commercial districts

TIF-supported development projects generally fall into two separate categories:

- City-owned property: The City owns the land and therefore must issue an RFP; developers are selected through a competitive procurement. The City may recommend a TIF incentive to overcome obstacles to development (environmental issues, etc.).
- Community-driven projects: A community organization (such as a community development corporation, for example) or anchor institution partners with a developer and requests City support to fund infrastructure. The partners typically request a TIF incentive and negotiate with the City if the project meets the City's criteria.

Eligible Projects

Not every project that is eligible for TIF incentives will receive consideration by the City. In making this determination, the City's policy is to ask the following questions:

- Is the project supported by the neighborhood?
- Is the project supported by the local anchor institutions (employers, hospitals, universities)?
- Does the project pass the "but for" test?
- Is the project consistent with the community's quality-of-life or similar plan?
- Does the project generate more than enough incremental property tax revenue to support the requested TIF incentive?

Alternatives to Tax Increment Financing

While TIFs can be a powerful Economic Development tool, it is also important to consider other available tools. Some of these tools are complementary to TIF and, when applied appropriately, can increase its development power by spurring private investment. In some cases, however, other Economic Development tools may be more appropriate for development projects, depending on factors such as the size and scale of the project, the intended beneficiaries, and the level of flexibility required. Examples of alternate and complementary Economic Development tools include:

- General Obligation Bonds
- Economic Development Revenue Bonds
- Midwestern Disaster Area Bonds
- Industrial Development Bonds
- Economic Improvement Districts
- Property Tax Abatement
- Cumulative Capital Development Fund
- Certified Technology Parks
- Community Revitalization Enhancement Districts
- Local Option Income Taxes

Fiscal Analysis of Tax Increment Financing

This section includes discussion of key concepts related to fiscal analysis of tax increment financing in Marion County. A significant portion of the document is focused on describing the effects of TIF policy issues such as TIF neutralization, the circuit breaker credit, and TIF pass-through decisions.

Marion County Property Tax Revenue

When assessing the financial implications of TIF policy, it is important to start from the broader context of the Marion County property tax environment. Property taxes are the largest source of revenue for Indiana local government units (other than schools). In the 2012 tax year, Marion County levied more than $933 million in property taxes (net of circuit breaker). Approximately 89% of Marion County property tax revenues flow to local taxing units. About 52% of non-increment property taxes are allocated to Indianapolis-related taxing units. Indianapolis city functions will receive $318 million in 2012, and the Indianapolis-Marion County Library, Health and Hospital Corporation, and IndyGo will receive a combined $80 million. The remaining non-increment property tax revenue is distributed to school corporations, townships and excluded cities and towns.

TIF incremental revenue accounts for approximately 11% of the property taxes billed in Marion County. The Indianapolis Consolidated Allocation area receives the largest share of incremental revenue in 2012 -- $63 million, or 64% of the total. The Airport TIF receives 15% of incremental revenue, and the other Indianapolis TIF districts share 13%. TIF areas in the excluded cities (Lawrence, Beech Grove and Speedway) receive 8% of incremental revenue.

TIF Neutralization

TIF neutralization is a legally required process that is intended to neutralize the effect of external factors on the base and increment. This adjustment is required annually in accordance with Chapter 50 of Indiana Administrative Code 8-2-12. TIF neutralization results in either an increase or a decrease in base assessed value, depending on a number of factors. In recent years, the TIF neutralization process has resulted in a decrease in base AV (base depletion) for some TIF districts. The major causes of base depletion in the neutralization process include:

- Elimination of levies and tax rates due to the State assuming School General and County Welfare levies
- Introduction of the supplemental standard deduction reduced net assessed values in housing TIFs
- The economic downturn's sustained, negative impact on assessed valuation (both county-wide and within TIF districts)
- Protection for property tax appeals

Circuit Breaker Credit Overview

In 2008, the Indiana General Assembly enacted a series of property tax reforms in House Enrolled Act 1001 that have significantly altered the landscape of local government finance generally, and tax increment finance specifically. One of the property tax reforms was the institution of parcel level, rate-based property tax controls, which became known as the "Circuit Breaker Credit." Once fully established, the circuit breaker limited property taxes to 1% of homestead property assessed value, 2% of rental, residential and agricultural land AV, and 3% of AV for all other property taxes. While the circuit breaker credit made property tax obligations much more predictable for taxpayers, it introduced a high degree of uncertainty into local government budgeting.

Circuit Breaker Credit and Tax Increment Financing

The introduction of the circuit breaker credit has fundamentally altered the fiscal implications of TIF, and has necessitated changes in how decision makers approach TIF policy. Before circuit breaker credits were in effect, TIF capture did not largely impact a base unit's property tax revenues. If TIF districts captured more AV, tax rates adjusted and taxing units did not experience a revenue shortfall. With circuit breakers in effect, an increase in tax rate does not produce a corresponding increase in revenue, and the capture of TIF AV can have negative fiscal implications for taxing units. The table below summarizes the implications of TIF in the pre-circuit breaker and post-circuit breaker environments.

Impact of Circuit Breaker Credit	
On the Relationship between TIF Districts and Taxing Units	
Pre-Circuit Breaker Credit	**Post-Circuit Breaker Credit**
• Taxing unit property tax revenue determined by <u>levy</u> controls.	• Taxing unit property tax revenue determined by <u>rate</u> controls.
• Maximum levy growth determined by change in Indiana personal income.	• Levy controlled funds act more like rate controlled funds. Homesteads limited at 1%, other residential at 2%, all other property at 3%.
• Revenue growth is virtually guaranteed – tax rates adjust to generate revenue necessary to fund levies.	• Once all parcels reach circuit breaker, revenue growth only occurs through growth in the tax base.
• TIF activity does not largely impact property tax revenue for other taxing units.	• TIF activity can have negative revenue implications through higher circuit breaker losses.*
*This occurs because only base AV is used to set property tax rates, and TIF capture results in a smaller tax base, higher tax rates, and therefore greater circuit breaker losses.	

TIF Increment Pass-Through Decisions

The primary mechanism available to local governments to manage the relationship between TIF increment and TIF base is the annual TIF pass-through decision. In this decision, the redevelopment commission determines the amount, if any, of excess incremental revenue that should be returned to the TIF base. In 2012, Indianapolis TIF increment was passed through to the base in eight TIF districts. Four of these TIF districts are dormant or partially dormant and have been inactive since 2006. For the other five TIF districts, 2012 is the first year of increment pass-through.

Fiscal Impact of TIF Pass-Through

One result of passing AV from the increment to the base is an increase in revenue to local taxing units. Passing AV to the base reduces the property tax rate and reduces the circuit breaker impact to taxing units. However, the relationship between circuit breaker relief and increment pass-through is non-linear, and decreases as more AV is released to the base. For example, in Marion County, when $100 million of AV is passed through, $3.2 million in increment revenue translates to $2.0 million in additional property tax revenue to units (63%). If all TIF increment is passed through, $99 million in increment revenue would translate to $43 million in additional property tax revenue to units (43%). The effectiveness of TIF pass-through at generating new revenue decreases as the impact of the circuit breaker credit is mitigated.

Geographic Location of AV Growth

One of the key realities of post-circuit breaker fiscal policy is that property tax revenue growth is primarily driven by AV growth, especially for urban areas that are significantly impacted by the circuit breaker. This means that for a given unit's geography, capturing all of the assessed value growth within TIF districts, even if used for legitimate and prudent economic development and redevelopment purposes, will eventually choke off the property tax revenue growth needed to keep pace with the rising costs of providing public services. From 2006 to 2011, the properties within Indianapolis TIF districts grew at an average rate of 5.7% per year, while the AV in the non-TIF portions of the county remained flat.

Prior to the introduction of the circuit breaker, this growth pattern would not have materially affected local government revenues, and taxing units would have continued to receive the annual permissible levy growth. However, in the post-circuit breaker environment, if all AV growth is captured within TIF districts, the result will be a stunting of property tax revenue growth to units. This reinforces the need of an active strategy to manage the allocation of AV growth between the general tax base and the TIF increment.

Financial Practices

Tax increment financing most often involves the issuance of public debt in the form of tax revenue bonds. This section will review standard industry guidelines for financial information and practices as well as the practices of the City of Indianapolis with regard to TIF debt issuance.

As previously mentioned, incremental tax revenue can be used to fund projects directly or on a pay-as-you-go basis, using the taxes collected in the TIF district. Alternatively, the taxes can be leveraged by borrowing against the projected revenue stream that will flow from increases in AV as the project improvements are realized.

Underwriting and Credit Factors – Industry Standards

The following information is based on a Standard & Poor's publication on Special-Purpose Districts, which outlines criteria it uses to gauge the marketability of a tax increment bond issuance. In general, the favorable aspects of tax increment bonds include the fact that the bonds do not create an additional tax burden for taxpayers; reliable tax collection rates (assuming the area is not concentrated by a small number of taxpayers); and expected growth in tax revenue from the new development and increasing property values.

Among the risks related to tax increment bonds are that the pace and rate of development in the project area are outside the control of the debt issuer; the risk of reduced tax increment revenues as a result of changes in tax law or assessment practices, and volatility in real estate markets.

Underwriting assessment also includes an analysis of the project area, a review of taxpayer concentration, historical AV growth, future assessment growth, management of the redevelopment authority, legal considerations, financial operations and cumulative tax limits.

Factors that Influence Underwriting Considerations:

- Reserve levels
- Tax base growth or decline
- Vacancy rates
- Foreclosure and tax collections rate
- Downturn in commercial, industrial and residential development
- Amount of changes in debt level

Legal considerations in bond issuances include factors such as:

- Ensuring the pledge of the security (the incremental property tax revenue)
- Debt Service Coverage, which measures the amount by which tax revenues exceed the annual debt service amount
- Whether there are legal requirements to pass the entire increment to the development authority
- Frequency and outcomes of property tax appeals

Other information generally reviewed as part of the financial and underwriting review:

- Size and use of the property in the project area
- Five-year projected assessed valuation
- Project tax rates and underlying taxing industries
- The base year valuation
- Debt service schedule
- Ten largest taxpayers in the project area and the assessed value of the related property
- Tax collection rates
- Major pending assessment appeals
- Cumulative project area tax limit, if any
- Descriptor of tax sharing agreements with base tax units
- Expiration date of districts
- Additional bonds test and other legal covenants
- Bond indenture
- Consultant's Feasibility Report, if available

Bond Structure – Maturity and Debt Service Coverage Ratio

TIF bonds are customarily long-term bonds with a debt service ratio of 125%. This means that the annual tax revenue will be at least 125% of the annual debt service payments.

Since state laws require TIF districts to be terminated within 25 years after the issuance of debt, the maximum maturity of bonds in Marion County would be 25 years, with the exception of bonds issued in a TIF without an expiration date. The bonds could include a call provision, which allows the borrower to pay off the debt early without a penalty. An underwriter will advise the issuer to match the maturity of the debt with the useful life of the underlying assets. Since many TIF projects are for infrastructure, a long-term debt matches the useful life of the underlying asset (streets, curbs, sidewalks and bridges).

A Debt Service Reserve (DSR) also is required to secure the bond payments and serves as a security feature. The amount of the DSR can be included in the borrowing as specified in the bond covenant and must be held for the life of the bond. The debt can be further secured by a moral obligation or other guarantee of the issuing municipality, a guarantee by the developer, or both. A reduction in the amount of debt service reserves would result in a mandatory report (material event notice) to bondholders and would likely affect the issuer's credit rating and ability to issue debt in the future.

During the initial years of the project when improvements are being built, the incremental tax revenue may not flow immediately, so revenue projections typically allow two to three years before realizing the full revenue stream. For this reason, the debt issuance will include capitalized interest for the first two to three years. Since the bond issuance creates a long term commitment of the property tax revenue that will be used to pay it off, deals should be structured to ensure that the public benefits received from the deal are of similar duration.

Marion County's Tax Increment Financial Practices

Debt Service Reserves Policy
The current debt reserves level for Marion County TIF funds is based upon:

- The DSR as required by bond documents
- An Additional Reserve equal to 10% of the outstanding principal balance of the bonds
- Stabilization Fund, also required by bond ordinance and designed to be used if revenues are insufficient or to the provider of applicable interest rate agreements
- Appeals reserve predicated upon the number of outstanding property tax appeals

Debt Service Coverage
Marion County's internal policy for coverage is 150% to allow for security and protection against the variables discussed above. While the current debt coverage is calculated at 150%, the appropriate coverage level may vary by project or TIF district and depends on variable factors such as the diversity of the taxpayer base or the industry in which the primary taxpayers operate.

Current TIF Debt

In Indianapolis, eight TIF allocation areas have outstanding debt totaling $844.8 million, with annual debt service of $64.2 million in 2012. The projected 2012 tax revenue for those districts is $89 million. The shortest bond maturity is 2013 and the longest maturity is 2038.

Legally, each TIF district is a separate entity, and the debt coverage or expenditures for each is dependent on the revenue generated within it. However, there are consolidated TIF funds or allocation areas, which include the pooled funding of two or more TIF districts. In a consolidated TIF, the revenue or fund balance can be disbursed to pay obligations of any TIF district included in the consolidated area. A summary of debt in Indianapolis TIF districts is provided in the table below.

Summary of Debt in Indianapolis TIF Districts
(in millions of dollars)

Allocation Area	Fund Balance as of 12/31/11	Outstanding Debt as of 12/31/11	2012 Debt Service	2012 Tax Revenue *	Years Until Last Bond Matures
Consolidated Allocation Area (Downtown)	137.6	677	41.1	63.4	26
Airport Economic Development Area	0.2	72.9	15.8	14.7	11
Harding Street RDA	7.3	38.7	3.9	5.9	12
Martindale-Brightwood Industrial RDA (Ertel)	0.4	5	.	0.5	1
86th St EDA (Dow Elanco)	.	22.4	0.9	0.7	23
Glendale Allocation Area	3.4	4.9	0.5	0.8	15
Fall Creek Housing Area HOTIF	6.3	14.7	1.3	1.7	18
Barrington HOTIF	0.4	2.5	0.1	0.2	3
Near East HOTIF	1.3	6.7	0.7	1.1	13
Indianapolis Total	156.9	844.8	64.2	89	26

*Based on 2012 billed taxes. Final receipts could be less.

Other Policy Considerations

Alternate Options for Evaluating and Maximizing TIF Policy

In the current tax policy and economic environment, there is value in the maxim "doing more with less." There is less property tax revenue flowing as a result of both the state takeover of school levies and the reduction of property taxes received as a result of the circuit breaker. Therefore, it is useful to consider ways to extend the reach of the incremental property taxes captured for Economic Development activity. Several recommendations were offered in the reports the Commission received from the Indiana Housing and Community Development Authority (IHCDA) and the Indiana Association for Community Economic Development (IACED).

***Potential Policy Solutions from IHCDA*:**

- The City can leverage more of its TIF revenue by using all or part of it to create a revolving loan fund to complement or replace the grants to private industry developers. Whenever possible, the MDC should extend a loan instead of a grant to recycle increment funding.
- Include deferred developer fees in structuring the underlying deals for TIF projects, to be paid later in the project or at the end of the project
- Disaggregate components of a packaged project to allow for the use of multiple Economic Development tools
- Perform a rigorous cost/benefit analysis in addition to the "But For" test

***Policy Considerations from IACED*:**

The concept of Economic Development should be expanded to Community Economic Development, to implement holistic, comprehensive and sustainable solutions in redevelopment and economic development TIFs. Community Economic Development projects should focus on increasing capital flow into the communities rather than focusing solely on increasing AV of the property. Additionally, a focus on Community Economic Development should increase self-sufficiency among residents through initiatives that encourage entrepreneurship and small business growth in the communities and neighborhoods in or adjacent to TIF project areas.

In the absence of state and federal funding programs, TIF is the most important local tool for Community Economic Development. It can be improved to leverage a wide range of benefits beyond growth in property value. The "But For" question can more easily be observed when used for the types of development that are regularly underserved by the market, including:

- In blighted areas where infrastructure is outdated
- For environmental remediation
- For affordable housing near well-paying jobs
- Deteriorating main street shopping centers

Implications for Base Taxing Units

The Commission received presentations, testimony and interview information from staff and officials of base taxing units. A summary of observations and potential policy considerations is provided below:

Base taxing units may experience an increase in demand on services with the creation or expansion of a TIF district, particularly if it includes residential development. There is potential increased demand for educational services, transit, and library services. If a new development is in a TIF district, the demand may increase without a corresponding increase in property tax revenues, as they are captured for the TIF increment. The theory of a temporary, although long-term tradeoff is not realized in districts where the TIF does not have an expiration date.

Currently, state law requires that units receive an Economic and Tax Revenue Impact Statement 10 days prior to the MDC hearing at which the Confirmatory Resolution is considered. At this point the taxing units have missed the opportunity to give feedback and input during the initiation stage.

Infrastructure

In light of the extensive use of TIF funds for infrastructure, the Commission received a briefing from the Director of the DPW, which is primarily responsible for infrastructure in the city. If DPW does not directly manage infrastructure building in TIF-related projects, it is still responsible for ensuring that the projects meet local code and requirements. DPW has performed very few TIF funded projects although it has performed a significant amount of work in TIF districts. DPW has used a total of $16 million, most of it for infrastructure on Georgia Street, the United Northwest Area district and for the Dow Elanco TIF. The primary source of revenue for DPW is fuel tax, which is declining and therefore not a steady funding stream against which to borrow.

Lessons from Peer Cities

The DMD surveyed and researched TIF practices, procedures and lessons learned in eight peer cities. The report also included nationwide trends and issues related to TIF. Recent issues with TIF nationwide include the following:

- Determining how much of the taxes can be captured and by whom. Some states already exempt specific types of taxes from capture (for example school taxes)
- Relaxing eligibility and expanding uses (e.g., for affordable housing) to allow TIF to be used in instances other than extreme dilapidation
- Determining the best way to define TIF district boundaries
- Longer duration limits, particularly during the downturn in the economy

Among peer states, many TIF practices are similar. Some of the differences of note are:

- Missouri includes eligible tax revenues, such as income tax, sales tax, gross receipts tax, portions of local sales, earnings and payroll taxes, in addition to property taxes. The funds are used to reimburse developers for eligible costs.
- Ohio includes the School Board among the approving agencies and Wisconsin uses a Joint Review Board, comprised of representatives of every overlapping tax district and one public representative, which has the authority to approve or deny TIF districts based on specific criteria.
- Charlotte, North Carolina uses a Synthetic Tax Increment Grant (STIG) as a public/private partnership tool for Economic Development and land use planning goals. The STIG is simply a reimbursement to private developers who construct public infrastructure or provide other public benefits. The developer must secure all financing privately. The city (and county) reimburses the developer from a fund composed of a portion of incremental taxes. Under this scenario, the city incurs no debt, does not issue credit enhancements or assume any risk related to the project; the amount of STIG that can be awarded is limited.

Expanding the Marion County Comprehensive Plan

All of the observations about TIF refer to its use within the framework or guidelines of a larger planning process. Several presentations and discussions have addressed the need to base decision-making about TIF on a countywide Comprehensive plan.

The Department of Metropolitan Development (DMD), Division of Planning periodically prepares a land use plan for Marion County, called the Comprehensive Plan for Marion County, Indiana. The Comprehensive Plan is required by state statute as a basis for zoning and must include objectives and policies for future land use development and development of public ways, place, land, structures, and utilities. The most recent update of the Comprehensive Plan is called Indianapolis Insight.

Given that the Comprehensive Plan is primarily a land use document, the City-County still does not have a holistic planning process which takes into account current and long-term vision and needs for county-wide Community Economic Development. It does not include a Comprehensive TIF Plan. Additionally, while it has done work around the comprehensive elements in Community Economic Development, there remains a need for a County-wide comprehensive plan that establishes priorities, identifies and assigns resources, including funding and staffing needs, and implements a plan that holistically addresses local needs in the following areas:

- Civic engagement and community building
- Economic Development
- Environment, Sustainability, Parks and Open Space
- Land Use Standards and Procedures
- Neighborhood development and affordable housing
- Redevelopment
- Regionalism
- Transportation
- Infrastructure and Capital Planning
- Job Creation and Training

Future Policy Considerations

In a discussion about the ability to use TIF funds for infrastructure and potential uses of TIF funding for programs or capital projects of taxing units, the Library and IndyGo identified infrastructure activities that are eligible for use of TIF funds:

- Infrastructure related to libraries, to the extent the projects are in a TIF area or directly serve or benefit a TIF area
- Library computer training labs, job centers, language lab and computer classes, and digital learning labs
- IndyGo capital purchases of buses and equipment. IndyGo is currently using federal monies given for capital purchases to fund operations. While this is allowable under federal rules, the use of that money for operational expenses precludes the ability to fund bus replacement. The IndyGo President recommended that the City consider look at the opportunity to use funds toward transit capital and infrastructure.

Public and transparent prioritization of proposed TIF projects and districts would help to allocate the limited capacity of TIF as an Economic Development tool, even if the exact prudent limits are not known. Other finite resources are allocated by Indianapolis governments using transparent periodic (e.g. annual) review and approval processes consisting of application submissions that are scored according to established criteria and collectively ranked. The awarding of crime prevention and arts grant funding are two examples of this approach. Adoption of a similar transparent process for the review and approval of new TIF districts would increase transparency and public confidence that valuable TIF capacity is deployed fairly and targeted to maximize benefits and reduce associated risks. The rapid establishment of a comprehensive county-wide Economic Development plan and capital plan for public infrastructure is critical for prudent review, ranking and approval for TIF projects and districts.

Conclusions and Recommendations

This section outlines the Indianapolis-Marion County Council Tax Increment Financing Study Commission's conclusions and recommendations regarding TIF policies in Marion County. The Commission's charge was to examine Economic Development policies and procedures related to the use of Tax Increment Financing (TIF) in Marion County; to hold public hearings and take public input; and to report to the Council its findings and recommendations for improvement.

Conclusions

Over the course of ten meetings and more than 24 hours of discussion, presentation and public testimony, the Commission has concluded the following:

- Tax increment financing is a tactical, time-limited tool for Economic Development.
- While TIF provides the City-County with a tool to compete with other cities both within and outside the state, the optimal value of its use lies in realizing the greatest amount of public benefits distributed widely among the local community.
- A comprehensive planning process requires the coordination and participation of all the stakeholders.
- Passing the "But For" test is only part of the TIF project evaluation process. A decision about a project must include other qualitative and quantitative measures that address the public benefit of using TIF and avoid the creation of "TIF entitlement."
- Businesses may rely on TIF to help fill gaps in funding. The County should rely on TIF to help fill gaps in employment, small and medium business development, entrepreneurial capacity, affordable housing, job training and retraining, environmental remediation, redevelopment, and community building.
- TIF is a significant tool, but not the only one in the Economic Development toolbox.
- Currently, the Consolidated City has an $844 million, 26-year commitment to Tax Increment Financing, which relies on nearly 10% of the assessed value of property countywide.

Recommendations

The Commission's ultimate objective is to provide constructive methods to improve the effectiveness of an important Economic Development tool and, because of recent changes in the property tax landscape, suggest ways to optimize the use of TIF revenue for Economic Development, while releasing excess AV to the base taxing units, to facilitate the provision of services they are responsible for providing. The following recommendations are not exhaustive, but representative of the thoughtful and informative exchange that has taken place during the Commission's deliberations.

The recommendations fall into four broad categories:

1) Clearly define the management and decision-making process for using Tax Increment Financing.

2) Establish transparent financial practices, accounting, reporting and monitoring.

3) By March 1, 2013, develop a strategy to analyze the segments of the Comprehensive Plan, including Neighborhood Plans, to determine areas that need redevelopment or economic improvement. The strategy should identify resources, time-lines, and budgets necessary to develop a county-wide Comprehensive Plan segment for creation of future redevelopment and economic improvement areas.

4) Request changes to policies or requirements of state law.

In detail, the Commission's recommendations are as follows:

1) Clearly define the management and decision-making process for using Tax Increment Financing.

Specifically, the process should:

a. Be transparent and consistent with evaluation methods that measure proposed and new TIF decisions against the existing capacity in the county.

b. Use tax increment financing in a limited capacity that is in concert with, but does not displace, the development and execution of a comprehensive countywide plan for Economic Development and public infrastructure maintenance.

c. Identify targeted and narrowly tailored geographic allocation areas that provide a funding source for Economic Development activity and preserve the property tax dollars that would otherwise flow to base taxing units.

d. Minimize the duration of the TIF districts to the amount of time reasonably required to accomplish both the Economic Development goals of the project and to provide for the return of incremental assessed value to the base taxing units as soon as possible.

e. Focus the use of tax increment financing for redevelopment projects and in redevelopment areas in the county. This includes projects or developments that address blight, abandoned and vacant properties, environmental remediation and other economic development projects that address market failures.

Further, the Commission recommends that the Metropolitan Development Commission should:

f. Exercise a higher level of scrutiny for approval of economic development projects than for redevelopment projects. Economic development projects must be justified by specifically enumerated benefits that align with the comprehensive county plan, community development plans and the principles of Community Economic Development.

g. Contract with eligible entities for educational, work training and worker retraining programs to increase the skills and productive capacity of the local labor force; create a more competitive workforce to meet needs of existing, expanding and new businesses; and enable county residents to compete successfully for the jobs that will be created by the use of tax increment financing revenue.

h. Include local hiring goals in the declaratory resolution to promote local hiring, promote local employment and ensure that the City-County Council and the citizens of the City of Indianapolis are informed about employment opportunities and job creation resulting from TIF-funded activity.

i. Include minority and women-owned business enterprise participation goals in the declaratory resolution.

j. Include claw back provisions in project agreements that are subject to effective oversight and ensure that non-performing projects are quickly remediated through the return of TIF funding when performance goals are not achieved.

k. In addition to financial feasibility studies, implement the use of robust market and real estate feasibility studies to evaluate and choose TIF projects that catalyze development and residential settlement within the county and that do not contribute to sprawl and movement of businesses and residents to surrounding counties.

l. Engage a community development organization to administer a revolving loan fund, funded by TIF revenue, which allows for access to capital in markets where it may be more difficult for local and small businesses to obtain capital and allows the City to leverage additional use of TIF revenue.

m. Require a cost/benefit analysis, including a discussion of the following as part of all TIF project applications:
   i. Use of a project TIF as compared to a TIF district, which has a wider footprint.
   ii. A description of how the project plan aligns with the county-wide comprehensive planning document
   iii. A description of how the project plan aligns with the local/neighborhood planning document.
   iv. A market analysis of the existing, possible or likely future free market unsubsidized private development in the proposed geographic area.
   v. Analysis of recent changes in the assessed value in the geographic area of the proposed project.
n. Commission a study of the impact of TIF on local property values, holding all things constant. The analysis would address the question, "Does TIF promote growth in AV of areas surrounding the allocation area?" This study would provide additional insight to preliminary data that shows a 5.7% increase in TIF districts' net assessed value (AV) annual growth rate as compared with 0% growth in the rest of the county.
o. To the greatest extent possible, employ the use of alternative or complementary Economic Development tools and infrastructure funding prior to the use of TIF.
p. Create, in concert with the Controller, the DMD, the Bond Bank, and the DPW, a uniform TIF application, employing best practices. The TIF application will require the collection of all information needed to evaluate the proposed project and all data elements required for a TIF database, including a financial pro forma.
q. Prohibit the inclusion of assessed value in the increment of a new allocation area if the parcels contain improvements that are already completed or in process when the Declaratory Resolution is passed.

2) Establish transparent financial practices, accounting, reporting and monitoring. Specifically, the MDC, in coordination with the Controller and Bond Bank, should:

a. Engage a third party review of all TIF financials and documentation to establish a uniform documentation, reporting, tracking and monitoring system and to document Marion County process and practices in a Marion County TIF Handbook; Create a uniform application that will be used to capture TIF information, preserve institutional memory and monitor project outcomes (number of jobs, for example) in comparison to agreed upon outcomes.
b. Build a TIF database for the collection of consistent information which can be used in the evaluation and analysis of TIF transactions and data.
c. Create and maintain a TIF website which would be a repository of the TIF data and information made available to the public.
d. Establish semi-annual local reporting requirements in addition to the new requirements established by Senate Enrolled Act (SEA) 19-2012 to include a three-year capital spending plan for pay-as-you-go projects and other estimated spending for eligible uses of TIF funds. Include progress reports on the commitments and goals established with the TIF (number of housing units or jobs, for example). The mid-year report would be presented at a meeting of the MDC, during which the MDC will receive a written and oral report from the Bond Bank Director and the City Controller at least 7 days prior to voting on the annual resolution sent to the Auditor which determines if there are excess funds in the TIF accounts that can be used in the upcoming budget.

e. Establish accountability and remediation requirements for the performance of TIF districts. Performance should be measured against stated goals at the time the project or district was established. Non-performing TIF projects and districts should be quickly addressed with progressive steps to reduce and minimize financial exposure from non-performing projects and districts, up to and including requiring the return of TIF funds from entities.

f. Expand community and base taxing unit involvement in the TIF process by:

    i. Issuing earlier notification of base taxing units and community organizations that may be impacted by the creation or expansion of a TIF district.

    ii. Expanding the reporting requirements to local taxing units to provide a clearer picture as to the impact of the establishment or expansion of a TIF district. This includes projecting foregone revenue for all taxing units.

    iii. Including representatives of the local taxing units, such as schools, townships, public transportation and the library on the TIF Project Team, to provide insight and feedback about potential effects and affinity of the program with the services they provide.

g. Implement Standard Financial and Credit Management Practices and Policies. The Commission recommends the following policies with regard to fund balances, debt reserves and annual assessed value pass-through:

    i. Reserves and Fund Balance should be determined by establishing all reserves required by bond covenants, an allowance for property tax appeals and additional reserves equal to no more than ten percent (10%) of the outstanding principal amount of the bonds. Review outstanding appeals at least annually to adjust the appeals reserve amount.

    ii. The MDC should pass-through all AV in excess of the amount that will generate one hundred fifty percent (150%) of the of TIF revenues necessary (if applicable) to satisfy the annual bond debt service.

    Unless justified by financial or economic events, the MDC should make all efforts to pass through all excess AV to the base taxing units.

    Pay as you go capital expenditures and/or other eligible expenditures should be funded by the remaining unreserved fund balances after the reserves and pass through allowance determination methods described above are completed.

h. Establish Sunset Dates for all TIFs. The Commission recommends the following with respect to TIF districts that are dormant or have no mandatory expiration:

    i. Dormant TIF districts: In the absence of overwhelming justification otherwise, the Commission recommends the termination of all three dormant TIF districts.

    ii. TIF districts with no required sunset date: In the absence of overwhelming justification otherwise, the Commission recommends the establishment of termination dates based on the last maturity date of the related bonds.

    iii. TIF districts without outstanding debt and which are used on a pay-as-you-go basis: in concert with appropriate community development organizations and in alignment with a comprehensive planning document, the MDC should establish a capital spending plan and sunset date no longer than 20 years into the future.

3) **Recognizing that the optimal use of TIF as an Economic Development tool is limited unless wider environmental circumstances are addressed, the Commission recommends that the MDC engage an audit of the existing comprehensive plan to determine how development has progressed since the most recent plan; and to establish a collaborative working group consisting of representatives of DMD, DPW, Office of Finance and Management, urban planning experts, community and neighborhood development organizations, representatives of the base taxing units, and others, as appropriate, to work with the auditor/facilitator to make and implement a plan to create a strong, broad and comprehensive county-wide planning document, as well as a regular and periodic method for keeping it current.**

4) **Request that the General Assembly change the law regarding the following:**

   a) Allow the establishment of TIFs that capture a specified percentage of the incremental revenue (in addition to current law which permits the pledge of less than 100% of the incremental revenue at the financing stage).

   b) Require earlier notification of base taxing units and community organizations that may be impacted by the creation or expansion of a TIF district.

   c) Allow the capture of all or a part of local income taxes of non-resident employees in a TIF district to contribute to public services provided to the district. To avoid creating an incentive for establishing random TIF districts, this might be best considered in an economic development TIF that is employer specific.

   d) Require Council approval for any transfer from a TIF account that exceeds $1 million, unless it is a bond payment.

   e) Refer any outstanding questions or issues from the Marion County TIF Commission deliberations to the Indiana General Assembly for review and research as part of the quadrennial fiscal analysis report on the Marion County Redevelopment Code.

INDIANAPOLIS-MARION COUNTY COUNCIL

TAX INCREMENT FINANCING STUDY COMMISSION

FINAL REPORT

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ACRONYMS

AV: Assessed Value

CCD Fund: Cumulative Capital Development Fund

COIT: County Option Income Taxes

CRED: Community Revitalization Enhancement District

CTP: Certified Technology Park

DLGF: Department of Local Government Finance

DMD: Department of Metropolitan Development

DPW: Department of Public Works

DSR: Debt Service Reserve

EDA: Economic Development Area

EDC: Economic Development Commission

EID: Economic Improvement District

ERA: Economic Revitalization Area

GO bond: General Obligation Bond

HEA: House Enrolled Act

HoTIF: Housing TIF District

IAC: Indiana Administrative Code

IACED: Indiana Association for Community Economic Development

IC: Indiana Code

IDB: Industrial Development Bond

IEDC: Indiana Economic Development Corporation

IHCDA: Indiana Housing and Community Development Authority

IPS: Indianapolis Public School Corporation

LOIT: Local Option Income Tax

MADS: Maximum Annual Debt Service

MDC: Metropolitan Development Commission

MOU: Memorandum of Understanding

RDA: Redevelopment Area

RDC: Redevelopment Commission

RFP: Request for Proposal

SEA: Senate Enrolled Act

STIG: Synthetic Tax Increment Grant

TIF: Tax Increment Financing

Scope of the TIF Study Commission

The Indianapolis-Marion County Council Tax Increment Financing Study Commission was established by City-County Council Resolution 36, 2012.[2] Its charge was to examine Economic Development policies and procedures related to the use of tax increment financing (TIF) in Marion County; to hold public hearings and take public input; and to report to the Council its findings and recommendations for improvement.[3]

Commission Members:

- Steve Talley, Chair of the Council Metropolitan and Economic Development Committee, Commission Chair
- Brian Mahern, Chair of the Rules and Public Policy Committee
- Jeff Cardwell, Member of the minority caucus of the Council (appointed by the Council minority leader to replace Ryan Vaughn after his resignation from the Council)
- Jeff Spalding, Controller
- Deron Kintner, Executive Director of the Indianapolis Bond Bank
- Billie Breaux, Marion County Auditor – proxy: Richard Hunter, Director of Settlement
- Ed Mahern, Chair, Metropolitan Development Commission (appointed by the Council president)
- Bill Crawford, State Representative (appointed by the Council president)

Powers and Duties of the Commission

The enacting ordinance directed the Commission to review and make recommendations about Indianapolis-Marion County's Economic Development policies and procedures related to TIF used in Marion County, including but not limited to, the following:

1) Policies and past practices used in Marion County for the establishment of TIF districts and projects therein;
2) Policies and past practices used in Marion County for the expenditure of TIF district funds and the issuance of debt backed by TIF district funds;
3) Current Marion County TIF districts and associated fund balances, debt obligations and past expenditures;
4) Need for new methods to increase transparency of Marion County TIF districts' funds and the expenditure of those funds, including the establishment of an online database of TIF districts' funds and expenditures and periodic reporting of TIF districts' financial data to the Indianapolis City Controller, Marion County Auditor, the Indianapolis-Marion County Council and taxing districts impacted by TIF;
5) Need for new methods to increase accountability, including the establishment of new performance standards in the establishment of TIF districts to ensure targeting of TIF districts to revitalize blighted areas of Marion County and job creation;
6) Need for performance goals for private development that receives TIF and methods to provide consequences for the failure to achieve those goals;
7) Need for a comprehensive Economic Development plan to ensure the creation and development of TIF districts and projects therein in a coordinated fashion consistent with Economic Development goals of job creation and community revitalization;
8) Need for periodic review of established TIF districts and projects therein to ensure performance towards Economic Development goals;
9) Impact of TIF districts on Marion County taxing districts that depend on property tax revenue and the need to mitigate negative impact to those taxing districts, including development of standards and methods to return excess TIF district funds to those units; and
10) Need to establish methods to dismantle TIF districts that are no longer needed and/or address projects therein that are not achieving Economic Development goals.

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[2] See Appendix 1: Exhibit 1, City-County Council Resolution 36, 2012.

[3] The Commission focuses on the TIF districts in Marion County that are governed by the Metropolitan Development Commission. Data from excluded TIF districts in Beech Gro9ve, Lawrence, and Speedway is included in the fiscal analysis; however, the wider discussion of this study relates solely to TIFs under the jurisdiction of the MDC.

Scope of the TIF Study Commission

Meetings and Agendas[4]

Information in this report is drawn primarily from presentations by study group participants at the following meetings:

1. March 29, 2012
    - Introduction of the Commission members
    - Commission charge, operating guidelines, and timeline
    - Reason for the study
    - Description of tax increment financing

2. April 5, 2012
    - Graphical recap of meeting 1
    - Marion County TIF districts- overview

3. April 12, 2012
    - Alternative perspectives of TIFs and complementary Economic Development tools
    - Selected projects and expenses in Marion County TIF districts, part 1

4. April 19, 2012
    - Selected projects and expenses in Marion County TIF districts, part 2
    - Identify issues- comments and recommendations for the TIF policy discussion
    - Perspectives and public testimony on public policy issues

5. May 3, 2012
    - Preliminary report presentation

6. May 17, 2012
    - Approval of minutes, preliminary report of findings
    - TIF districts and growth in gross assessed values in Marion County
    - Redevelopment and economic development- TIF policy factors to consider
    - Discussion, comments, and public testimony

7. May 24, 2012
    - Underwriting factors and financial guidelines
    - Current financial practices for debt coverage, reserve requirements
    - Fiscal impact- base taxing units, part 1
    - Discussion, comments, and public testimony

8. May 31, 2012
    - Fiscal impact- base taxing units, part 2
    - Infrastructure
    - Policy considerations
    - Discussion, comments, and public testimony

[4] All documents and presentations for the TIF Study Commission can be found on the City County Council's website: http://www.indy.gov/eGov/Council/Committees/Pages/Tax-Increment-Financing-Commission.aspx. Archived videos of the presentations can be found on the City of Indianapolis' On-Demand website: http://indianapolis.granicus.com/ViewPublisher.php?view_id=3.

INTRODUCTION: Definition, Origin & Use of Tax Increment Financing

Tax Increment Financing[5]

Tax Increment Financing (TIF) is an Economic Development tool used to encourage investment and development within a specified geographical location.[6] A "tax increment" is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF district designation as a result of redevelopment or economic development in the area. It is used to pay debt that is borrowed on the expected increment or to directly fund the projects and activities used in redevelopment or economic development projects within the TIF district.

TIF districts help municipalities attract private development and new businesses to the area. They are also used for retention and expansion of existing businesses. TIF benefits can provide incentives for business owners and developers to invest in deteriorating and decaying areas. In addition, many communities cannot afford needed improvements without raising taxes. The city uses funds generated from the tax increment for infrastructure, such as improved streets and utilities to help defray the expense of costly residential, commercial, industrial and mixed-use building projects. The TIF revenue is also used by the city as an incentive for private investment in the designated redevelopment or economic development areas. Examples of incentives include cash grants toward some portion of the investor's financing costs and credit enhancement, which can help to reduce the investor's cost of funds.

History and Background[7]

TIF has been used as an Economic Development tool since it was introduced in the 1950s in California. Since then, with the exception of Arizona, it has been implemented in every state and the district of Columbia. The use of TIF in Indiana began in the mid-1980s, in South Bend, Fort Wayne and Indianapolis. By 2002, it was widely used across the state; currently 58 counties have TIF districts.

The initial use of TIF districts was for redevelopment – to address blight, deterioration and abandoned, difficult to develop regions in urban areas. Over time, the use has expanded to include economic development projects, which eventually began to outpace redevelopment projects (at a rate of 3 to 1 between 1993 and 1995). The use of TIF for economic development differs in that it emphasizes job creation and business attraction, expansion or retention, which in many instances moved the use of the tool from use in redevelopment areas to green fields, in undeveloped spaces.

The purpose of using TIF districts has also evolved in terms of its objective. It has transformed from generating matching funds for federal grants to the replacement source of revenue for discontinued federal programs designed to provide money for addressing blighted areas (Urban Development Action Grants and others). Currently, TIF is widely used for infrastructure projects.

[5] See Appendix 3: Exhibit 1 for Frequently Asked Questions about tax increment financing.

[6] For the purposes of this report, the term Economic Development, when spelled with initial capital letters, refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area. When used with lower case or attached to the word area, economic development will refer to the type of tax increment financing project, as distinguished from a redevelopment area or project.

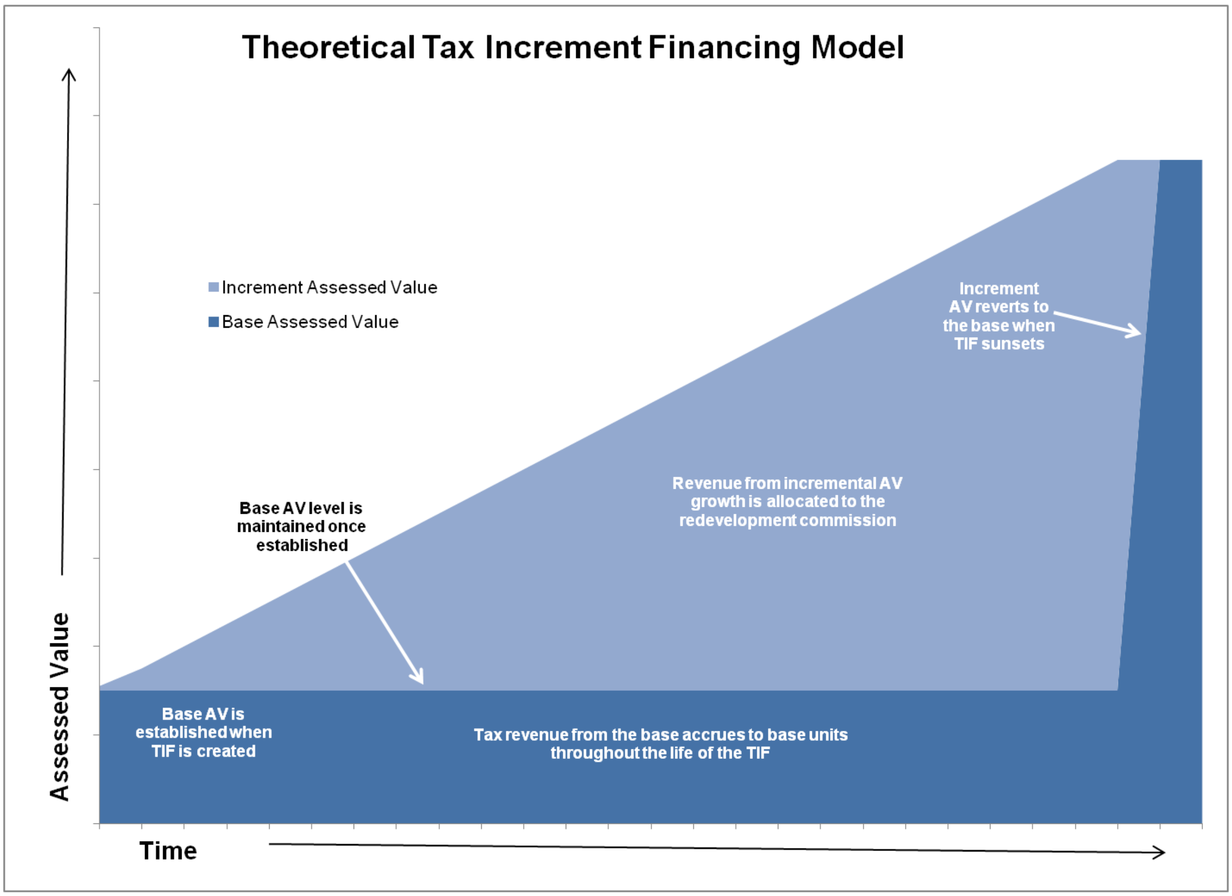
[7] Information taken from a presentation by Drew Klacik, Senior Policy Analyst at Indiana University Policy Institute, made at the April 5, 2012 meeting of the Commission.

INTRODUCTION: Definition, Origin & Use of Tax Increment Financing

How TIF Works

Figure 1 provides a graphical depiction of what happens over the life span of a tax increment financing (TIF) district, as measured by assessed value (AV) of the land in the TIF district allocation area. At the creation of the TIF district, the base AV is established and remains at that level for the duration of the TIF project. Once the redevelopment or economic development activity occurs, it results in increasing AV, which generates revenue that is captured in the increment and used to fund the project or to pay the debt incurred to fund the project. The incremental property tax revenue is captured until the TIF is terminated, after debt has been paid and projects have been funded paid for, at which time the TIF is retired and the increment AV reverts to the base (the dark blue portion of the illustration) and the base taxing units begin to receive property tax revenue from all the AV in the TIF district.

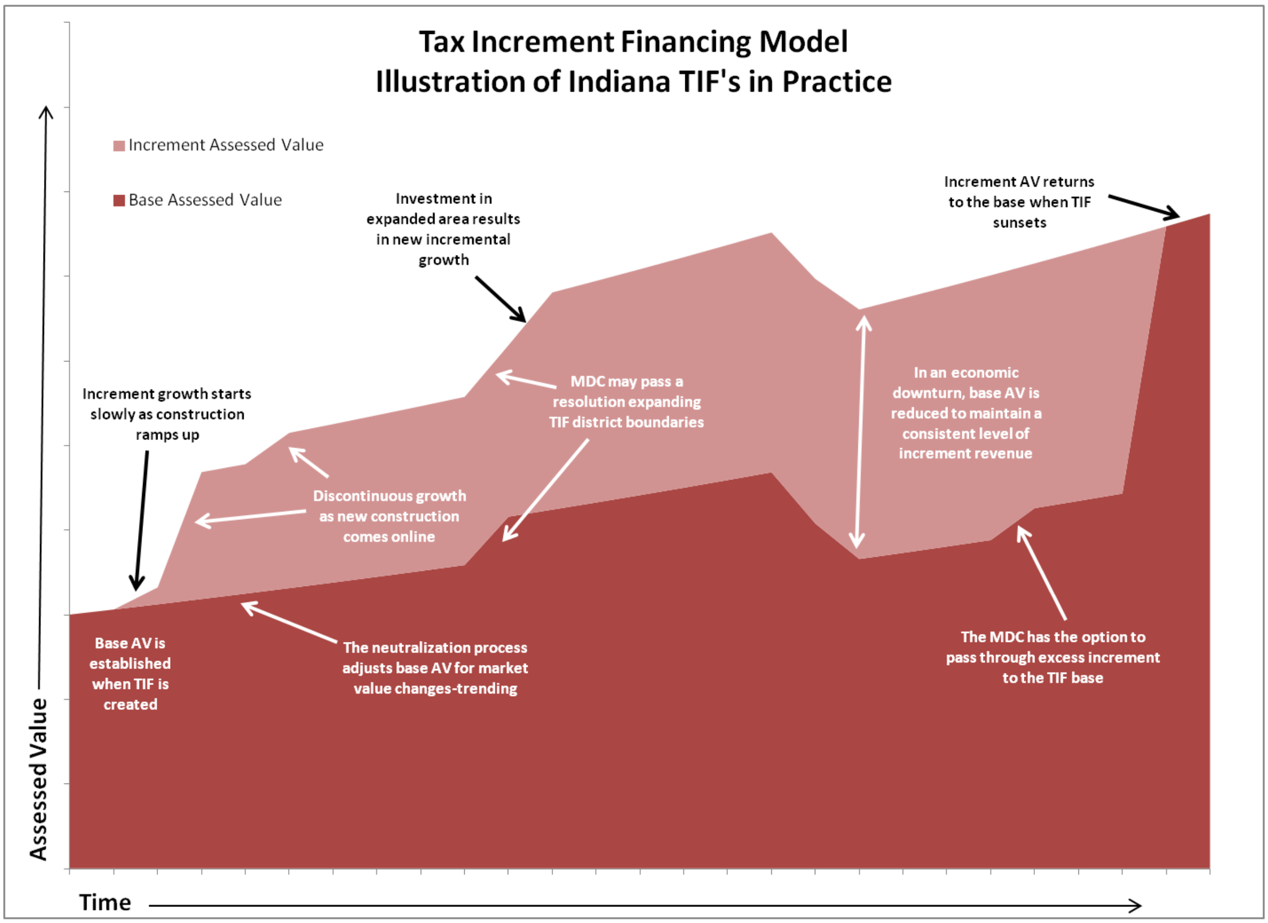
Figure 1



INTRODUCTION: Definition, Origin & Use of Tax Increment Financing

While Figure 1 represents the theory of tax increment financing, Figure 2 illustrates what happens in a theoretical TIF district in Indiana, taking into account events and changes in the property tax landscape that create changes in the calculation of the base and increment AV. These changes, which can occur at the TIF project, TIF district, local and/or state level, can affect the base and increment AV in a number of ways. For example, the growth in AV as a result of the project development may ramp up more slowly or quickly than projected in the initial model. It also may grow at an inconsistent rate. The relationship between the base and increment may change as a result of a variety of factors, including change in local or state policy, change in tax policy, fluctuation of real estate market values, expansion of the TIF district, or the pass-through of AV from the increment to the base. Ultimately, as in the previous illustration, the entire AV is returned to the base at the end of the life of the TIF district.

Figure 2



INTRODUCTION: Definition, Origin & Use of Tax Increment Financing

Enabling Statute for Marion County[8]

There are 45 TIF districts in Marion County, 12 of which are located in the excluded cities of Beech Grove and Lawrence and the excluded town of Speedway. Indiana Code (IC) 36-7-15.1-3 establishes the Metropolitan Development Commission (MDC) as the redevelopment commission of the consolidated city of Indianapolis.[9] However, an excluded city has the option of adopting an ordinance to establish its own Redevelopment Commission (RDC) and to be governed by IC 36-7-14 instead of 36-7-15.1.[10] All three of the excluded units with TIF districts have established separate redevelopment authorities and are not subject to the governance of the MDC. Data from TIF districts in Beech Grove, Lawrence, and Speedway has been included in the report; however, the discussion of this study relates primarily to TIFs under the jurisdiction of the MDC.

As the Consolidated City's redevelopment authority, the MDC may designate all or a portion of any redevelopment area (RDA) or economic development area (EDA) as an allocation area for the purpose of capturing incremental tax revenue. This action is subject to City-County Council approval. The MDC also may establish or expand an allocation area for distribution of incremental tax revenues, subject to City-County Council approval. Usually, allocation areas capture only the increases in the AV of real property; however, in certain instances, personal property can also be included in the increment.

[8] Information taken from a presentation by Bruce Donaldson, Attorney, Barnes & Thornburg, made at the March 29, 2012 meeting of the Commission.

[9] See Appendix 1: Exhibit 3, section 3, IC 36-7-15.1.

[10] See Redevelopment of Areas Needing Redevelopment Generally; Redevelopment Commissions, IC 36-7-14.

Types of TIF Districts

There are three categories of TIF districts, based on the allocation type:

Redevelopment Area TIF Districts:[11]
IC 36-7-1-3 defines redevelopment areas (RDA) as geographical locations in which normal development and occupancy are undesirable or impossible because of any of the following:

- Lack of development
- Cessation of growth
- Deteriorated or deteriorating improvements
- Environmental contamination
- Character of occupancy
- Age
- Obsolescence
- Substandard buildings
- Other factors that impair values or prevent a normal use or development of property

RDA TIFs encourage development of blighted, abandoned, deteriorating buildings within a geographic location where redevelopment might not normally occur. There are 33 RDA TIFs in Marion County:

140-West Washington Street Project
141-Harding Street
142-South East Redevelopment Project
143-North West Redevelopment Project
144-Near North Industrial Park
145-Union Station Center Project
146-Convention Center Hotel Project
147-Barrington HoTIF
148-Fall Creek HoTIF
149-United North West Area (UNWA)
150-Meridian I Redevelopment Area
151-Martindale-Brightwood Industrial RDA
152-Meridian II RDA
153-Lilly Personal Project
154-Fall Creek East HoTIF
155-Near East HoTIF
156-Martindale Industrial RDA - Ertel
158-Supplemental Housing Program Allocation Area
170-Beech Grove Consolidated Allocation Area Expansion
171-Beech Grove Regional Medical Center Allocation Area
352-Amtrak/Conrail RA
447-Fort Harrison
448-Pendleton Pike Allocation Area
449-The Monarch Beverage Allocation Area
552-South Emerson RDA
553-Beech Grove Consolidated Allocation Area
752-Amtrak/Conrail RDA
841-Glendale RDA
842-Glendale RDA
944-Speedway RDA I
945-Speedway RDA II
946-Tibbs Avenue RDA
947-Speedway Allocation II

[11] See Appendix 1: Exhibit 4, IC 36-7-1-3.

Housing TIF Districts:[12]
A Housing TIF district (HoTIF) is a special designation within redevelopment districts. HoTIFs are designed to address areas that do not have adequate affordable housing for low-income residents. Since HoTIFs are located primarily in residential areas, the AV of the allocation area used to calculate the base only includes the AV of the land. All existing improvements become part of the incremental AV. Six of the RDA TIF districts in Marion County are designated as HoTIF districts.[13]

147-Barrington HoTIF
148-Fall Creek HoTIF
150-Meridian I RDA
152-Meridian II RDA
154-Fall Creek East HoTIF
155-Near East HoTIF
158-Supplemental Housing Program Allocation Area

Economic Development Area TIF Districts:[14]
IC 36-7-15.1-29(b) defines an economic development area (EDA) as a geographical location that:

- Promotes significant opportunities for the gainful employment of its citizens;
- Attracts a major new business enterprise to the unit; or
- Retains or expands a significant business enterprise existing in the boundaries of the unit.

EDA TIFs are used to promote job creation by attracting and retaining business and encouraging business expansion within a specific geographical location where development might not normally occur. There are 12 EDA TIFs in Marion County:

240-Airport Industrial Economic Development Expansion Area-Decatur
241-Airport Industrial EDA -Indianapolis
440-Lawrence 96th Street Project
640-Dow Elanco Redevelopment Project
740-Brooksville/Senour Redevelopment Area
840-Washington 96th Street Project
741-Naval Air Warfare Center (Hughes) EDA
761-Naval Air Warfare Center (Personal Property) EDA
908-Aiport Industrial EDA -Wayne-Ben Davis
940-Aiport Industrial EDA -Wayne Outside
941-Aiport Industrial Economic Development Area-Indianapolis
960-United Facility

Figures 3 through 8 illustrate the locations of TIF districts by various designations and geographic groups.

[12] See Appendix 1: Exhibit 3, section 31, IC 36-7-15.1.
[13] Since HoTIFs are a subset of RDA TIFs, this list overlaps with the RDA TIF list.
[14] See Appendix 1: Exhibit 3, section 29b, IC 36-7-15.1.

INTRODUCTION: Definition, Origin & Use of Tax Increment Financing

Figure 3

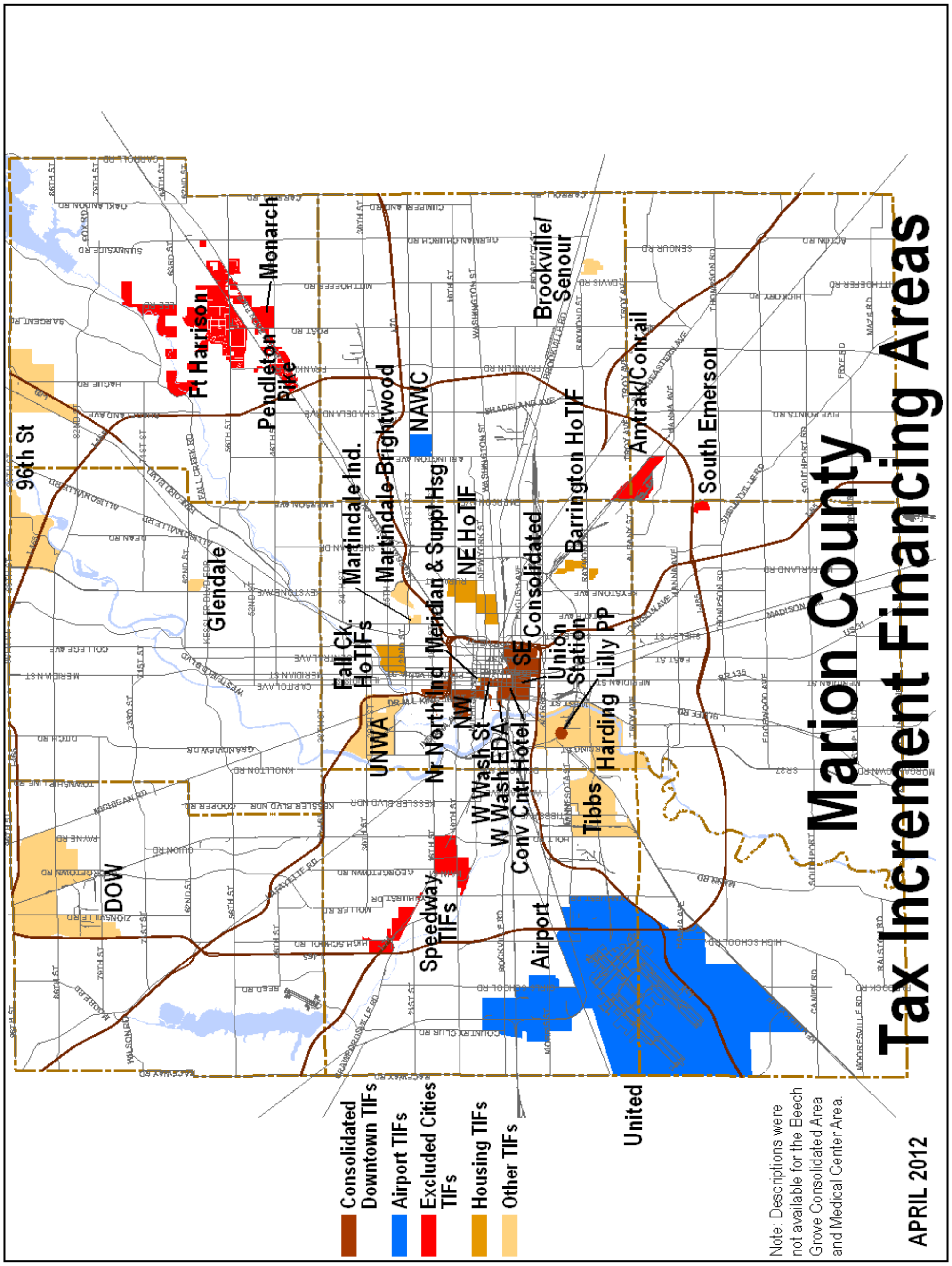


Figure 4

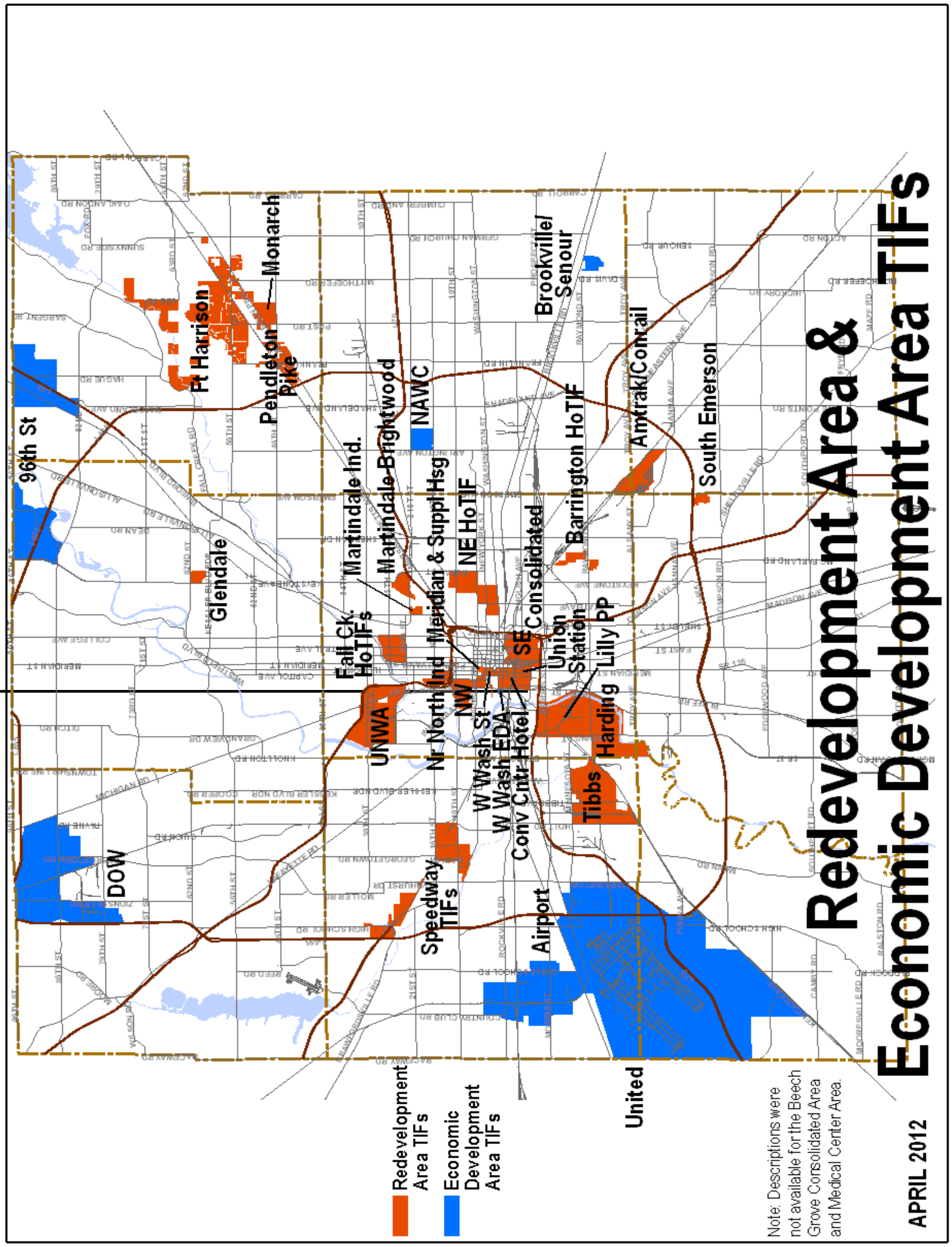

Redevelopment Area &
Economic Development Area TIFs
Redevelopment Area TIFs
Economic Development Area TIFs
Note: Descriptions were not available for the Beech Grove Consolidated Area and Medical Center Area.
APRIL 2012
96th St
Ft Harrison
Monarch
Pendleton Pike
Glendale
Martindale Ind.
Martindale-Brightwood
NAWC
Meridian & Suppl Hsg
NE HoTIF
Brookville/ Senour
Barrington HoTIF
Amtrak/Conrail
South Emerson
Consolidated
SE
Union Station
Lilly PP
Fall Ck. HoTIFs
Nr North Ind
NW
UNWA
W Wash St
W Wash EDA
Conv Cntr Hotel
Harding
Tibbs
DOW
Speedway TIFs
Airport
United

Figure 5

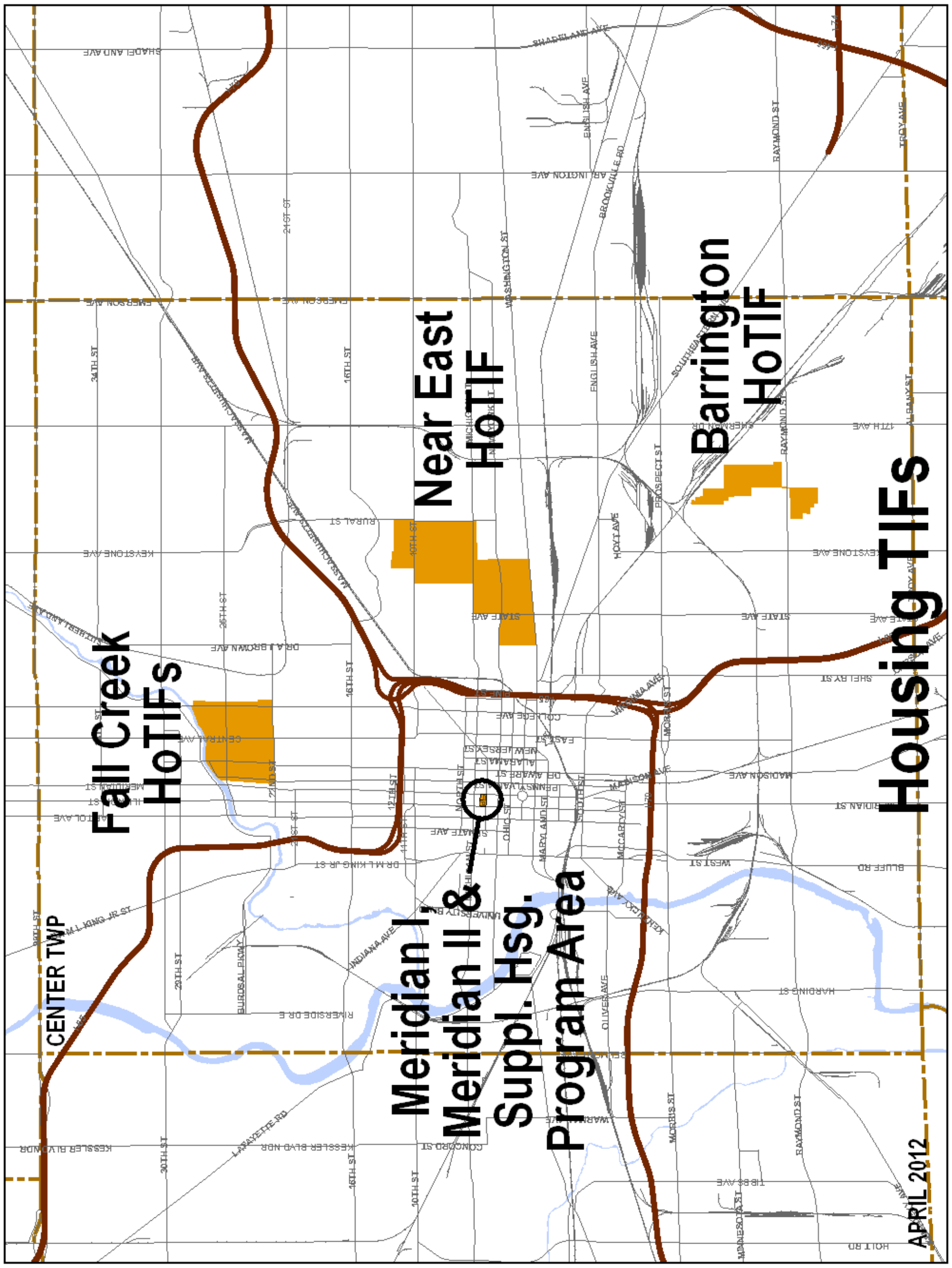

Housing TIFs
Fall Creek HoTIFs
Near East HoTIF
Barrington HoTIF
Meridian I, Meridian II & Suppl. Hsg. Program Area
CENTER TWP
APRIL 2012

Figure 6

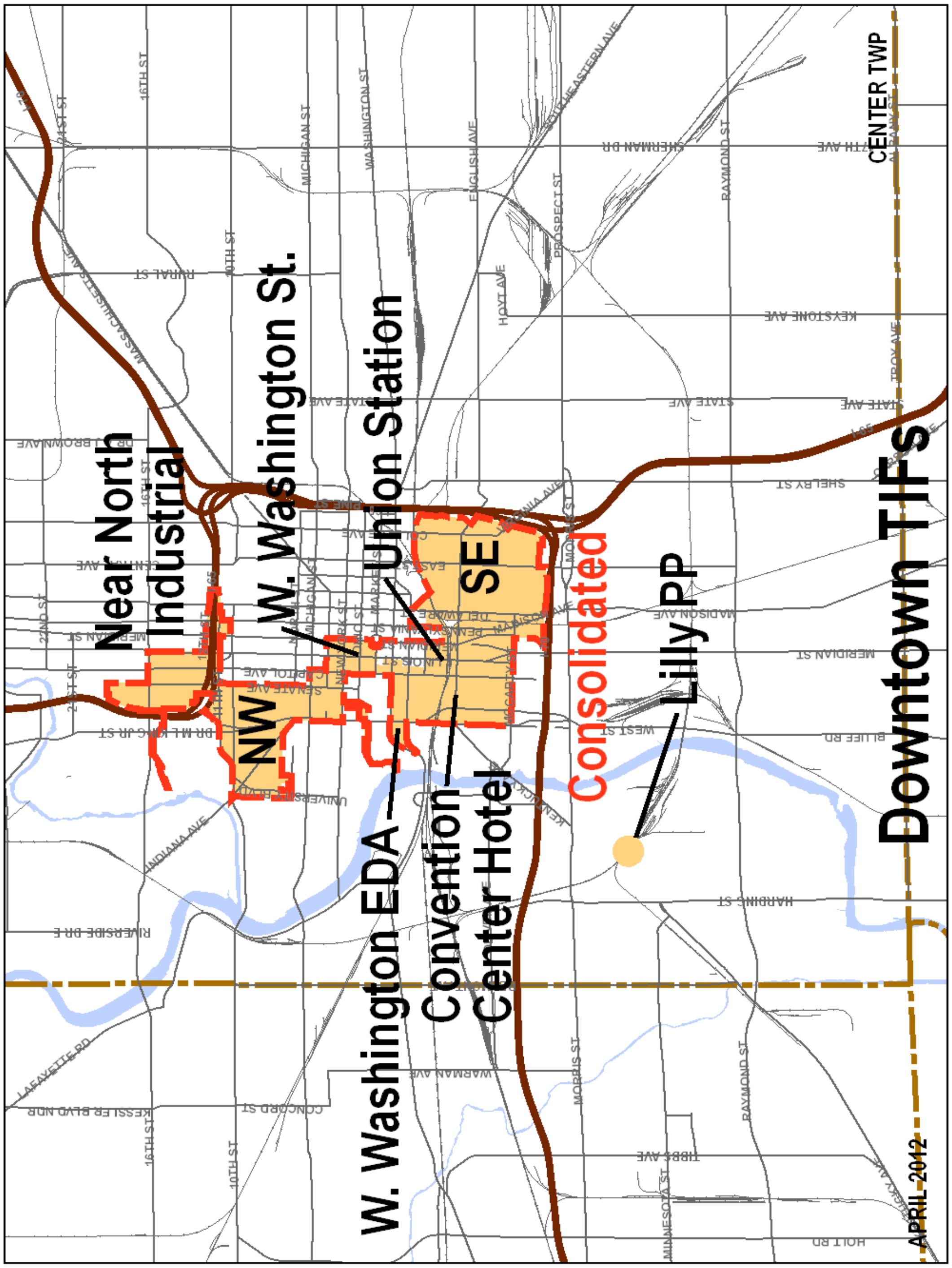

Near North
Industrial
W. Washington St.
Union Station
SE
NW
Consolidated
Lilly PP
Downtown TIFs
W. Washington EDA
Convention
Center Hotel
CENTER TWP
APRIL 2012

Figure 7

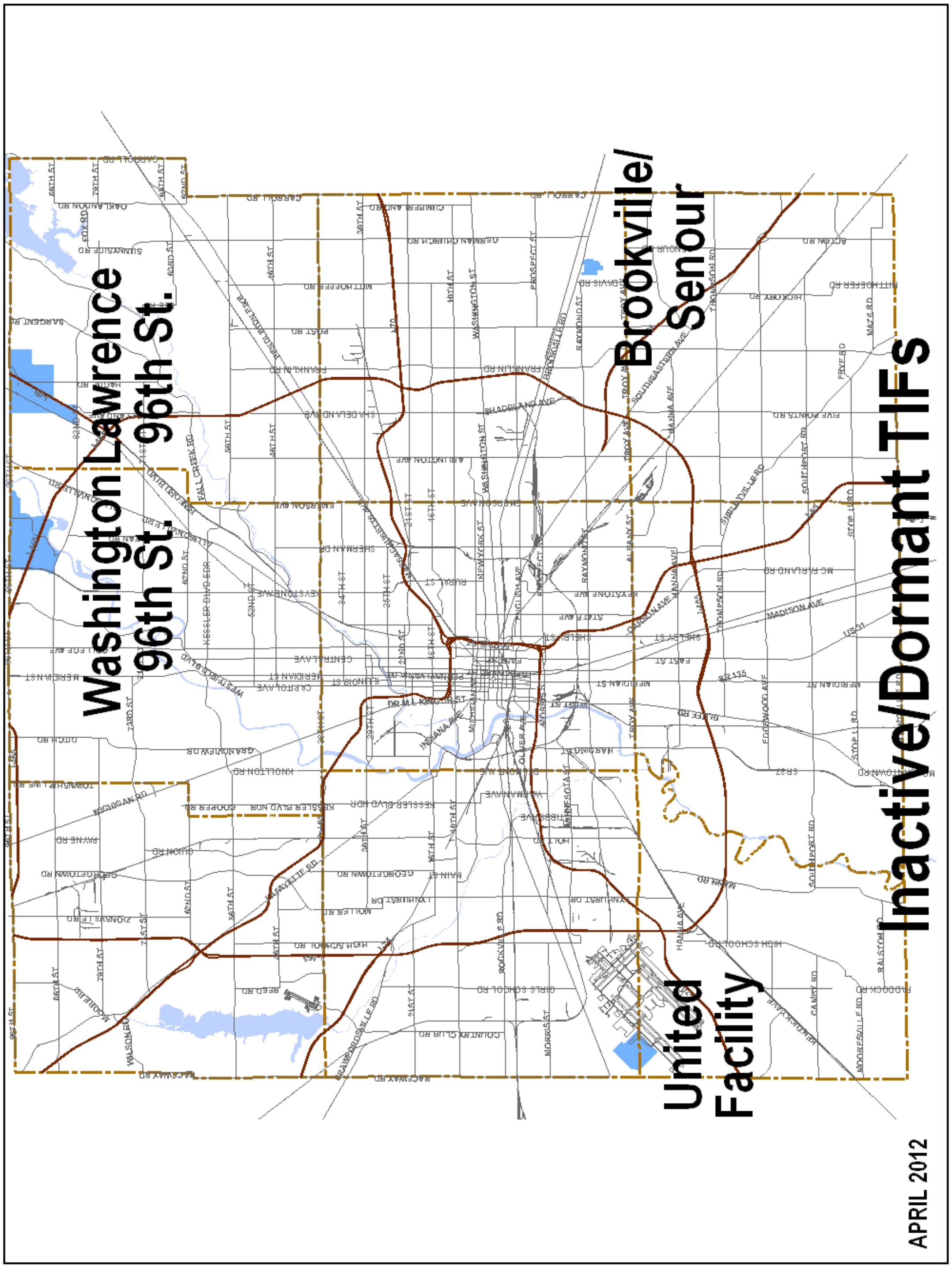
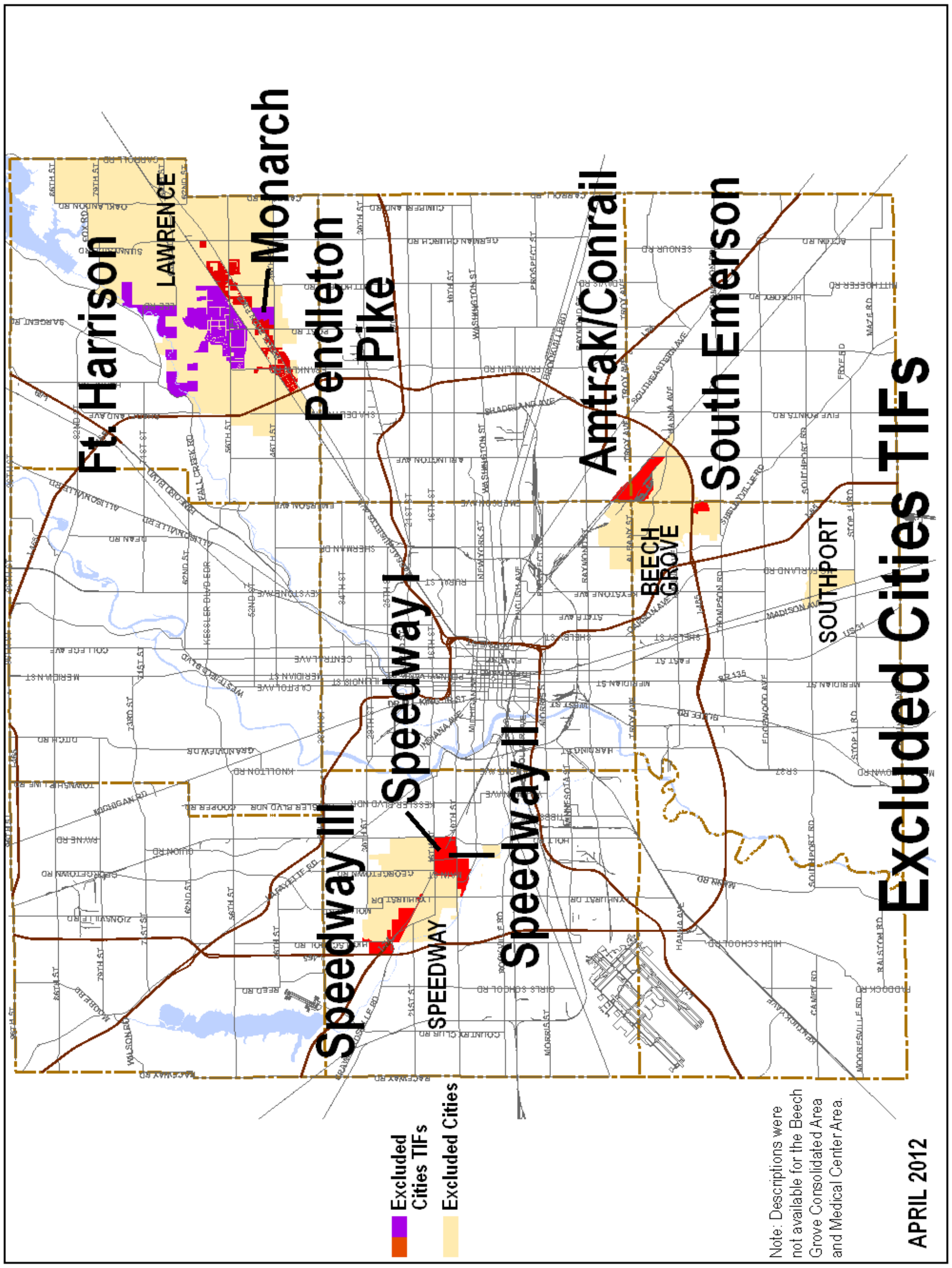

Washington
96th St.
Lawrence
96th St.
Brookville/
Senour
Inactive/Dormant TIFs
United
Facility
APRIL 2012

Figure 8


Excluded Cities TIFs
Ft. Harrison
Monarch
Pendleton Pike
Amtrak/Conrail
South Emerson
Speedway I
Speedway II
Speedway III
LAWRENCE
BEECH GROVE
SOUTHPORT
SPEEDWAY
Excluded Cities TIFs
Excluded Cities
Note: Descriptions were not available for the Beech Grove Consolidated Area and Medical Center Area.
APRIL 2012

Permitted Uses of TIF Revenue[15,16]

Generally, TIF revenues may be used for Economic Development purposes within the TIF district. It may *not* be used for the MDC's operating expenses. The permitted uses of incremental revenue include:

- Capital project expenditures in or directly serving or benefitting a designated redevelopment area or economic area, either directly or through bonding
- Direct "pay-as-you-go" projects:The MDC may contract for the construction of the project, or may fund the project through grants or loans to a neighborhood development corporation.
- Infrastructure, site acquisition, remediation, clearing, and improvements for projects
- Reimbursement to the City-County for expenditures for local public improvements in or physically connected to the allocation area
- Reimbursement of public and private entities for expenses incurred in training employees of industrial facilities located in the allocation area, on a limited basis
- Contracts with eligible entities for educational, training and retraining programs, and any other programs designed to prepare individuals to participate in the competitive and global economy and which promote the redevelopment and economic development of the Consolidated City. Expenditures are limited to 15% of the annual allocated tax proceeds and may not be from bond proceeds. [17]
- Costs of an "eligible efficiency project," defined as a project necessary or useful to the consolidation of local government services

Strengths and Benefits of TIF

TIF is a locally administered program and is relatively autonomous from state and local intervention. It is a politically uncomplicated way to establish a dedicated funding stream for a project. TIF provides a dedicated funding source and catalyst for redevelopment and economic development projects. Among the strengths and benefits of tax increment financing:

- Helps municipalities attract, maintain, and expand private investment and business development in the area. Investment does not flow to the Midwest naturally, but municipalities can use TIF as a means of attracting, retaining and expanding private investment.
- Politically feasible and highly flexible. The approval process is managed by the local government in contrast to other financing methods (e.g., does not require referendum).
- Debt incurred by TIF districts does not count against local debt limits.
- Shifts the risk of development projects from the taxpayers to the bondholders
- Creates a link between infrastructure and economic growth
- Implements market-based review (if lenders are not convinced that the project is a good investment, they will not make the loan)
- Acts as a catalyst for further development, both within the district and in adjacent areas
- Provides a dedicated revenue source for Economic Development
- Leverages additional investment.

[15] See Appendix 1: Exhibit 3, section 26, IC 36-7-15.1.
[16] See Appendix 3: Exhibit 2 for examples of City of Indianapolis TIF Funded Projects.
[17] See Appendix 1: Exhibit 5, section 7, IC 36-7-25.

Weaknesses and Risks of TIF[18]

TIF removes local elected officials from the decision-making process regarding the use of public funds (authority is granted to the redevelopment authority, comprised of appointed officials). TIF makes a long-term commitment of tax revenues and can be negatively affected by changes in tax laws and the economy. Specific risks and costs include:

- There is a risk of failure if, for example, a project is not completed or actual tax revenue growth does not meet projections or provide sufficient debt service coverage.
- The utility and effectiveness of the tool can be affected by changes in the tax environment. For example, the 2008 property tax legislation had the effect of reducing the incremental revenue (with the elimination of general fund school levies) and restricted the amount of revenue flowing to the base units.
- Borrowing may require capitalizing the interest during the early years of the project, when incremental revenue is not yet realized.
- There can be an appearance or perception of taxpayer inequity, particularly if transactions and decision-making are not transparent.
- It assumes all increment is caused by redevelopment (or economic development) to the detriment of other tax districts.
- Freezing the tax revenue overlooks increased services that other taxing districts may need to provide, particularly in light of the property tax cap's effect.
- Pure TIF bonds bear higher interest rates than general obligation bonds.
- The local government risks picking winners and losers, particularly in economic development projects where some development might occur without TIF.
- If incremental revenue exceeds projections, local taxing units may be deprived of needed revenue.

The Center on Wisconsin Strategy identifies five categories of costs of TIF use:[19]

> ***The Costs of TIF Use***
> Because TIF districts pay for improvements through future tax revenues, many people consider TIF 'getting something for nothing.' This is simply not true. In fact, using TIF carries significant costs, beyond just the dollar value of improvements made in the district. These costs fall into five general categories:
>
> ***Direct Costs*:** When most people discuss the cost of a TIF district, they are referring to direct costs. Direct costs are the costs of the physical improvements (including labor costs) within the district, the administrative costs of managing the district, the costs of any consultancies and/or developer incentives and the costs of financing all these expenditures.
>
> ***Service Costs*:** Although not commonly included in TIF accounting, local governments take on new service costs during the life of each TID. [20] New development increases demand for city, county, and school district services—demand not accompanied by increases in tax revenue to provide these services. For instance, a new subdivision will send more students to school and increase demand for snow and trash need more road maintenance. Providing these services is costly and, over the full life of a TID, can add up to millions of dollars.

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18 Information taken from a presentation by Jeff Spalding, City Controller, at the March 29, 2012 meeting of the Commission.

19 See the Center on Wisconsin Strategy's Efficient and Strategic TIF Use: a Guide for Wisconsin Municipalities.

20 The Wisconsin report uses the term "TID" (tax increment district) instead of TIF; however, for the purposes of this report, the meaning is the same.

***Fixed Tax Base Costs*:** Fixed tax base costs are the costs of lost tax revenue on private development that would have occurred without TIF. When the 'but for' test is administered with 100 percent accuracy the fixed tax base cost of a TID is zero. In many cases, however, the property included in TIF districts would generate some form of privately-funded development over the TID's life without any subsidy. If the property had not been included in a TID, local governments could receive taxes on this development immediately instead of it being diverted to pay off TID project costs.

***Opportunity Costs*:** Using TIF also imposes opportunity costs on local governments in two ways. First, by approving one project plan for TID development, local governments eliminate the opportunity to develop that piece of land in a different manner. For example, if a project plan allocates TIF funds for the creation of an entertainment district, it eliminates the possibility of developing that land into an industrial corridor. Second, when one TID is created, it limits the municipality's ability to use TIF elsewhere within the community, because state law limits the amount of property value which municipalities can include in TIF districts.

***Negative Externality Costs*:** Improper planning and land use is costly to a community. As a development tool, TIF can contribute to these costs when used unwisely. If TIF is used to subsidize Greenfield development on the urban fringe it contributes to sprawl, congesting commuter corridors and increasing pollution. If TIF lures businesses away from dense urban centers, it contributes to the spatial mismatch between jobs and employees, simultaneously creating labor shortages and unemployment. Likewise, if TIF is used to attract employers that do not pay living wages, the public bears the cost of wage supplements and social services for the working poor.[21] Districts incur direct costs, such as labor, administration, reporting requirements, salaries, etc.

[21] "For more information see: Coyne, William, "The Fiscal Cost of Sprawl: How Sprawl Contributes to Local Governments' Budget Woes." and Zabin, Carol et al., "The Hidden Public Costs of Low-Wage Jobs in California."

INTRODUCTION: Definition, Origin & Use of Tax Increment Financing

Current Landscape: The Problem Statement

Since 1983, Marion County has used TIF to facilitate community redevelopment, downtown revitalization, and economic development. However, several changes in the policy, tax and fiscal landscape warrant a review of TIF policy and practices.

Changes in Tax Structure
With the implementation of the 2008 property tax law, the impact of TIFs has a more direct impact on revenue to local government units.[22] Prior to the implementation of the property tax circuit breaker, local governmental units whose budgets consist of significant amounts of property taxes were able to collect the entirety of the tax levies permissible under state law. While some property taxes that would otherwise go to local government units were captured by TIF districts, property tax rates could increase to ensure that the entire levy was collected. With the institution of circuit breaker tax caps, however, local units have seen a marked decline in property tax revenue, falling significantly short of permissible levy amounts. Importantly, local units must still provide public services to new developments inside TIF districts, even though those developments' property taxes are not directed to the local units that provide those services.

Local Government Funding Crisis
The local government in Marion County is in a funding crisis. Since 2008, local government units in Marion County (such as the City and County, schools, libraries and IndyGo) have collectively lost more than $366 million in property tax revenue due to circuit breaker tax caps. County Option Income Tax (COIT) revenue has declined by $85 million from its peak. With property tax caps in effect, one of the few ways to increase property tax revenue is by increasing the amount of taxable property, either through new development or improvements to existing property.

Lack of Fiscal and Performance Transparency
Information and data about the revenue, debt, reserve funds, and expenditures of TIF districts is incomplete and often difficult to obtain. Historical documents that describe the objectives and expected outcomes of the TIF projects are either not currently available or easily accessible for all projects. Additionally, there is no consistent mechanism for monitoring the impact, performance, or return on investment of TIF projects against stated objectives. Finally, until 2012, there were no mandatory reporting requirements about TIF activity and transactions. Recent state legislation now requires annual reporting.[23]

Managing Excess Property Tax Revenue in TIF Districts
TIF districts are allowed to accumulate incremental revenue beyond the requirements of debt service to fund pay-as-you-go development projects. The MDC is required to submit an annual report to the Mayor and the Department of Local Government Finance (DLGF) indicating the amount of excess revenue it intends to use for projects. Any remaining revenue is required to be "passed-through" to the base taxing units through the annual TIF neutralization process each year in July. However, there is no stated limit on pay-as-you-go funding, which can amount to significant capital expenditures and large reserve funds. For example, in 2011 the Downtown TIF disbursed more than $38 million for pay-as-you go projects, which are not subject to Council approval. Additionally, the 2012 City-County budget deficit will be filled by a transfer of approximately $40 million from the consolidated TIF district (the downtown TIF) to the County General Fund for reimbursement of projects that occurred in prior years in the TIF allocation area. While this revenue stream was approved during the 2012 budget process, it represents an uncharacteristic appropriation of funds by the MDC to the City-County government.

These issues raise questions regarding the appropriate management of excess increment. If excess AV was passed through to the base taxing units, additional funding for government-provided services, reduced circuit breakers, and lower tax rates for taxpayers would result. In instances when excess property tax revenue is maintained, there has been no planned capital spending upon which the pay-as-you-go funding decisions are based.

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[22] See Appendix 3: Exhibit 3, Overview and Highlights of HEA 1001- 2008.
[23] See Appendix 1: Exhibit 2, SEA 19-2012.

Declining Funding for Infrastructure[24]

Public infrastructure is the responsibility of the Department of Public Works (DPW). DPW funds construction and infrastructure repairs primarily through state gas receipts; however, this source of revenue is declining due to improvements in vehicle fuel efficiency without corresponding adjustments of the gas tax rate. Over the last few years, DPW has used additional revenue, generated by the sale of the water utility assets to fund projects; however, that source of revenue will be exhausted by 2015. According to DPW, there is a current unmet need for basic infrastructure totaling $1.7 billion. In the absence of funding, TIFs are often used to make piecemeal infrastructure improvements.

Absence of County-Wide Coordination on Economic Development and Infrastructure Planning

Currently, Marion County does not have a well-coordinated economic development and infrastructure plan. It is unclear how TIF districts fit into the County's strategic plans. TIFs have been developed and deployed in an ad hoc fashion without overall coordination in budgeting for TIF capacity, considering implications for county-wide infrastructure and development, or determining how the goals and methodology of TIF districts should interrelate.

Cost of Funds

TIF is a more costly way to fund infrastructure, relative to general obligation bonds, given the higher interest rate and the need for reserve funds, which effectively increases interest rate since funds are not used until the end of the bond term (15-20 years). Capture of excess funding in the TIF balance prevents the use other funding options for economic development related infrastructure, such as, for example, utilizing the DPW's annual budget and borrowing against existing revenue streams by issuing general obligation bonds.

Stakeholders

The stakeholders who must be considered in a policy review of TIF districts include Marion County citizens, the base taxing units, businesses and private investors and community development organizations.

Marion County Citizens

The tax rate that all property owners pay is influenced by the tax increment captured by the TIF districts. If the incremental assessed value in all TIF districts was captured by the base taxing units instead of by the increment, the tax base would be broader and all taxpayers would pay lower property tax rates. Additional revenue would reduce the circuit breaker losses for the taxing units, which would allow them to provide additional services. Theoretically, in 2012 taxpayers would have received more than $56 million in total property tax relief if all of the TIF districts in Marion County passed-through all TIF AV to the base.[25]

On the other hand, Marion County citizens either directly (for citizens and property owners in the TIF district) or indirectly benefit from the increase in AV due to TIF districts. The infrastructure improvements, development projects, and leveraged investment associated with TIF districts improve the overall economic climate and the quality of life for all residents. Additionally, as the AV of the property in the district increases, citizens benefit from a broadened tax base and an increase in public revenue, when or if AV is passed-through or the TIF district is terminated.

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24 Information taken from a presentation by Lori Miser, Director, Department of Public Works, made at the May 31, 2012 meeting of the Commission.

25 See Appendix 2: Exhibit 1 for data on TIF increment AV as a percent of unit net AV.

INTRODUCTION: Definition, Origin & Use of Tax Increment Financing

Base Taxing Units, including City-County Government

Government units and public schools that receive funding from property taxes are affected by changes in tax and TIF policies. The base taxing units in Marion County include:

- Marion County
- Indianapolis Consolidated City
- Indianapolis Consolidated County
- 21 Cities, Towns, and Townships
- 11 Public School Corporations
- 3 Municipal Corporations: Indianapolis Public Library, IndyGo, and the Health and Hospital Corporation[26]
- Police and Fire Special Service Districts

Since TIF districts are allowed to capture increases in the assessed value, property tax revenue that the base units could use for operating expenses and infrastructure is redirected to the district. In 2012, for example, 23.5% of the Indianapolis Public School Corporation (IPS) taxing district's AV is captured in TIF districts. Theoretically, if all TIF AV were passed-through to IPS, it would have received $7.7 million in additional revenue in 2012.[27] In practice, it is impossible for 100% of the TIF increment to pass-through to IPS, due to debt service coverage and reserve requirements. However, the extent of the effect should be considered in the determination of a prudent debt service reserve ratio and an AV pass-through policy.

For the base taxing units, TIF districts represent a trade-off between foregoing property tax revenue in the near-term in exchange for increased revenue from the higher assessed value of TIF districts in the long-term. Property tax caps have restricted the amount of increased revenue the units can receive, which restricts the ability to provide government services.

One desirable effect of TIF districts is that they can spur economic development and lead to higher AV for properties in neighborhoods adjacent to the TIF district, thus increasing property tax revenues for the base units in the near-term. The base units also may collect additional revenue for operations and capital projects when or if TIF AV is passed through to the base units. Ultimately, when or if TIF districts are terminated, the base units will fully realize increased revenues from higher property values.

Elected officials and selected City-County departments are responsible for TIF policy formation and administration. The officials and departments who play a role in TIF districts include:

- *City-County Council*: authorizes TIF districts; approves the issuance of bonds; formulates policy
- *Office of the Mayor*: directs economic development initiatives for the City-County
- *County Auditor*: certifies the assessed value of all property in the City-County, including within the TIF districts
- *County Treasurer*: issues and collects property taxes; distributes revenue to taxing units
- *Department of Metropolitan Development*: administers TIF districts for the City-County; develops economic development plans for the City-County
- *Metropolitan Development Commission*: serves as the redevelopment commission of the City-County; establishes economic development areas and redevelopment areas; authorizes TIF districts; issues bonds through the Bond Bank upon approval by the Council
- *Department of Public Works*: assists, coordinates, and initiates infrastructure development; ensures all projects comply with codes and regulations
- *Indianapolis Bond Bank*: negotiates the issuance of municipal bonds for TIF districts; manages City-County debt
- *Office of Finance and Management*: manages receipts, disbursements, and reserve balances of bond proceeds

---

[26] Marion County has two other municipal corporations, the Indianapolis Airport Authority and the Capital Improvement Board (CIB), which are not funded by property taxes. However, since 2010, under the terms of an Interlocal Agreement with the Metropolitan Development Commission, the CIB has received $8 million a year. The agreement renews annually unless a six-month termination notice is provided prior to the end of each year.

[27] See Appendix 2: Exhibit 2 for data on the impact of passing all TIF AV to the base.

Businesses and the Private Sector

Typically, private developers and contractors collaborate with the MDC and the Department of Metropolitan Development (DMD) on TIF projects to ensure that the project is eligible and has appropriate financing. Ultimately, the goal of TIF districts is to spur private investments in local economic development projects. Thus, the involvement of businesses and investors is critical for the success of a TIF district.

Since TIF districts are generally located in industrial or commercial areas, business development and expansion is an important source of AV growth in the district. Businesses within the TIF district usually provide the majority of the property tax revenue needed to ensure debt service payments and contribute to future projects in the district.

Businesses often look to government for public subsidies that reduce the cost or increase the return on investment in redevelopment or economic development projects. TIF is often used to equalize the cost of a project in an urban area with one in a suburban area. One often-cited example is that the cost of installing parking garages in town is more expensive than paving a parking lot in undeveloped areas.

Community Development Organizations

When active, community development organizations help organize community planning and mobilize support (or opposition) for economic development. They often act as liaisons between the City-County and their communities. Community development organizations have been vocal in addressing the topics of the TIF Study Commission, particularly in support of the use of TIF districts as an Economic Development tool in their communities.[28] According to these organizations, TIF districts encourage community engagement by giving citizens control over the character and the redevelopment plans of their communities. They claim that TIFs fund catalytic projects that leverage further private investment. Community development organizations often view TIFs as the only way to prevent further deterioration and decay of urban neighborhoods.

The strength of community development organizations cannot be understated as a critical component in their constructive influence on economic development. It is also important that community development organizations are organized around a long term, sustainable plan for the community rather than specifically for the projects planned for TIF utilization. The active and strong participation of the community development organizations is also an important catalyst in the Economic Development process. Without it, the risks of TIF and Economic Development are increased.

[28] See Appendix 4 for letters from community development organizations.

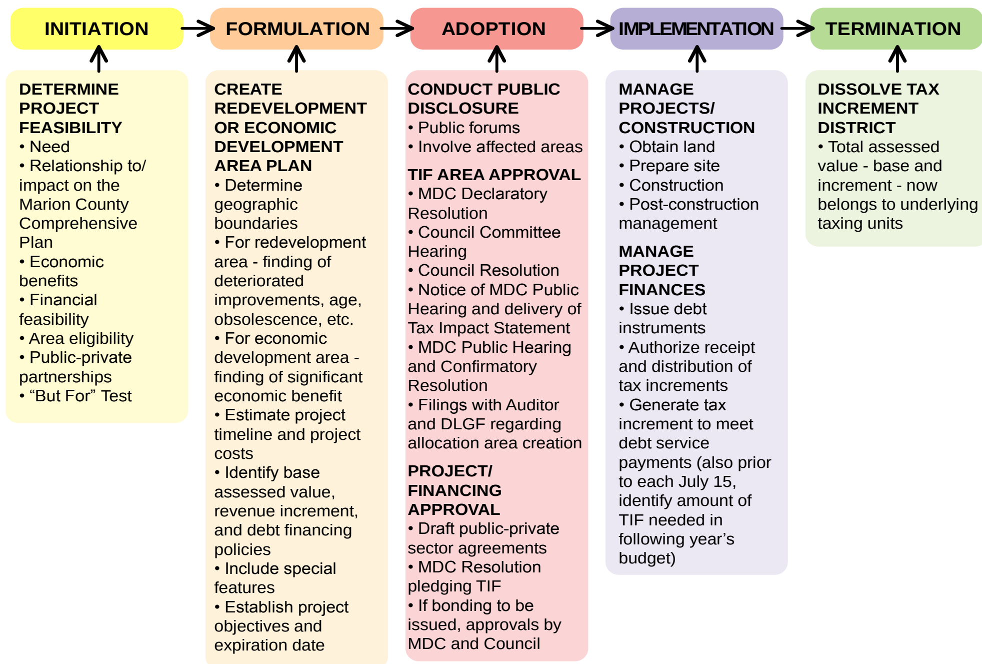
CHAPTER 1: Establishment of a Tax Increment Financing District

The Life Cycle of a TIF District[29]

The creation, expansion and operation of TIF districts are governed by state law.[30] The City of Indianapolis creates a TIF district through a five-step process. Figure 9 illustrates the process for establishing a TIF district in Marion County:

Figure 9

The TIF Process in Marion County



[29] Information taken from a presentation by Michael Peoni, Administrator, Department of Metropolitan Development, made at the April 5, 2012 meeting of the Commission.
[30] See Appendix 1: Exhibit 3, IC 36-7-15.1.

CHAPTER 1: Establishment of a Tax Increment Financing District

1) Initiation

The first step is to determine the project's feasibility by establishing need, economic benefits, financial feasibility, and area eligibility. The TIF district's relationship to, or impact on, the Marion County Comprehensive Plan must be considered, as well as the availability of public-private partnership opportunities. The "But For" test, which considers whether a development would occur as desired in the designated area if the incentive of the TIF were not provided, is also an important consideration in the TIF initiation phase.

"But For" Test[31]

The "but for" test is the idea that without public incentives, a project will not occur. In fact, Indiana law requires the following finding to be made before a TIF district is created: "***the conditions . . . cannot be corrected in the area by regulatory processes or by the ordinary operations of private enterprise***."

While the "but for" test is as much an art as a science, the following tasks should occur as part of the diligence and review process to ensure that the test is satisfied before moving forward with a project:

- Compare the project to similar projects (location, scale, type, etc.) and determine whether the similar projects received incentives.
- Review project pro forma and other financial analysis.
- Determine if the project is competitive. Can the project or investment occur elsewhere?
- Consult with experts.
- Evaluate recent development, or lack thereof, on and around the project site.

In evaluating the merit of a proposed TIF plan and its ability to pass the "But For" test, it is important to take account of not only expected increases in property value (AV), but the level of *living-wage* job creation, ability to catalyze further development, the extent to which it leverages other funding (such as matching state, federal or foundation dollars), and the positive externalities that the project is expected to produce, such as development of green building standards or increased access to job centers or transit systems, for example.[32]

Gap Funding

In many instances, the necessity of gap funding for a project allows the "but for" test to be met. Gap Funding is the difference between the cost of a project and the amount that investors are willing to invest in the project in order to achieve a market rate of return on that investment. For example, assume a project costs $100,000,000 and is expected to produce $8,000,000 in annual net income. Further, assuming a market where real estate investors expect a return of 10% on their investment, investors in this scenario would be willing to invest $80,000,000 (10% of $80 million = the $8 million annual return.) Typically, the municipality is asked to consider providing $20,000,000, which is the gap.

At that point, the municipality must decide whether the project is important enough to provide the gap funding, including its ability to financially justify its decision through the incremental taxes expected to result from the project and through additional investment in projects stimulated by the original project. (See discussion above.) If the municipality is willing to fund the gap, the project moves forward. If not, the investor will look elsewhere to invest money and the project will not happen.

[31] See Appendix 1: Exhibit 3, Section 8, IC 36-7-15.1.

[32] See the Center on Wisconsin Strategy's Efficient and Strategic TIF Use: a Guide for Wisconsin Municipalities.

Gap funding typically exists in urban and/or downtown settings, although it is not exclusive to those areas. The following are common reasons for the existence of Gap Funding:

- Land values are typically higher in downtown areas in contrast with more suburban locations, caused in part by the difficulty in obtaining large scale development sites.
- Parking in downtown and urban environments usually requires a parking structure due to the lack of available land, especially if land values are high. Conversely, in a suburban location, land is more readily available; therefore parking issues can be solved with surface lots, a significantly cheaper alternative.
- Urban locations are more likely to have environmental issues that require remediation than suburban locations.
- Investment in a distressed area can be challenging for investors, due to market conditions that fail to produce the required rate of return necessary to justify the investment. Gap funding can be used to reduce investors' required financial commitment, which can allow the annual income to reach market rate of return and in turn can further strengthen market demand.

Although different from gap funding, a similar outcome can occur in a competitive process where a municipality is competing for a project, and thereby required to provide incentives in order to win the project. This typically occurs in corporate retention and attraction situations.

2) Formulation

The second step is the creation of a redevelopment area (RDA) or economic development area (EDA) plan to be applied to a specific geographic location. Economic development is defined in this context as the governmental intervention to accomplish a development goal that might not have occurred without the intervention, but likely is not the only possible development that would occur. In other words, the governmental intervention is used to accomplish development rather than to passively allow free market private development that would occur without governmental intervention. For an EDA, there must be a finding of significant economic benefit. In contrast, redevelopment is defined as governmental intervention to accomplish a development goal in the absence of any significant interest by free market private development. For a RDA, the area must be found to be deteriorated, aged or obsolete.

Both economic development and redevelopment efforts can be reactive or proactive. When reactive, the City-County responds to specific requests for assistance or subsidy by a developer or neighborhood organization that has already conceived a project or defined a need. When proactive, the City-County assesses development needs, develops a comprehensive plan, and influences and encourages interest by private investors in a geographic area that is ignored by free market economic activity.

One factor that could be used to measure whether a TIF proposal is economic development or redevelopment is the level of private development's existing interest in a geographic area as measured through the recent AV growth and recent development projects in the area to date without a TIF.

Formulation also considers the projected timeline and costs associated with area improvements. Identification of the base AV, revenue increment, and debt financing policies are included in this step.

Finally, the plan includes project objectives and the expiration date for the TIF district. The TIF expiration date is based on the date it is established. If established:

- Before June 30, 1995, no expiration date is required (20 districts in Marion County).
- Between July 1, 1995 and June 30, 2008, the expiration date cannot exceed 30 years (22 districts in Marion County).
- After June 30, 2008, the expiration date may not exceed 25 years after the issue date of the first bond or lease rental obligation payable from the TIF (3 districts in Marion County).

3) Adoption

The adoption phase occurs in three stages, all of which involve communication among members of the affected public, the MDC and the City-County Council:

Conduct Public Disclosure – through public forums involving affected areas.

TIF Allocation Area Approval – This consists of six steps: MDC Declaratory Resolution; Council committee hearing; Council Resolution; Notice of MDC Public Hearing and delivery of Tax Impact Statement; MDC Public Hearing and Confirmatory Resolution; and filings with the County Auditor and Department of Local Government Finance (DLGF) regarding allocation area creation.

Project/Financing Approval – Public-private sector agreements are drafted; MDC Resolution pledging TIF revenue is approved; and if bonding is to be issued, approvals by MDC and Council are required.

State law requires that a Tax Impact Statement be delivered to base taxing units 10 days before the Confirmatory hearing, which is the last step in the adoption process (before financing). This provides little time for the taxing units to influence the process. In addition, the state requirement limits the impact reporting to units affected by rate controlled levy funds. In fact, with property tax cap, there is an impact on all funds in the county. The adoption process can be strengthened in both transparency and the level of inclusion by providing for participation and input of base taxing units from the beginning of the process and by extending the impact analysis to all levies that will be affect by the redirection of tax revenues to the increment.

4) Implementation

There are two stages within this phase:

Manage Projects/Construction – Obtain land; Prepare site; Construction; and Post-construction management.

Manage Project Finances – Issue debt instruments; authorize receipt and distribution of tax increments; and generate tax increment to meet debt service payments. In addition, the MDC identifies the amount of AV needed from the TIF allocation area to meet debt coverage requirements and passes through excess AV, if any, to the base taxing units for the following year’s budget. This must be done before July 15 each year.

Once an allocation area is established, the following steps are taken to collect the tax increment:
Determine the base assessed value (AV).

- The base AV is equal to the assessed value as of the immediately preceding March 1.
- The base AV generally includes only the real property AV, but can include personal property of designated taxpayers.
- In a HoTIF, the base AV includes only the AV of the land in the HoTIF allocation area. Existing improvements become part of the incremental AV.

Property tax increases generated from increased AV resulting from new investments in the allocation area (incremental AV) are captured in an allocation fund. The City Controller, who serves as the Chief Financial Officer of the MDC, performs an analysis each year to determine the amount, if any, of excess increment AV available to be passed through to the base. The MDC notifies the County Auditor of the pass through amounts by July 15 of each year, prior to the Auditor’s certification of net AV. The MDC maintains authority to use the allocation fund as approved for redevelopment or economic development activities and purposes described in the applicable plan.

5) Termination

Dissolution of the TIF district involves total AV combining the base and the increment, which then goes back to the underlying taxing units.

CHAPTER 1: Establishment of a Tax Increment Financing District

Marion County's Policies and Strategies for Establishing a TIF[33]

The life-cycle steps create the framework for establishing TIF districts; however, overall policy on TIF use is determined by the Mayor's economic development initiatives, the administration of the DMD, and the authority and oversight of the MDC. The Office of the Mayor and the DMD have provided the following information to describe current TIF policies and practices:

A TIF district's boundaries should:

- Conform with the comprehensive plan and subsequent small area plan
- Support neighborhood goals and/or quality-of-life plans
- Connect future redevelopment sites and identify "catalyst projects" within the district
- Be corridor-focused to set the stage for future transit improvements and transit-oriented development
- Promote connectivity by connecting neighborhoods to anchor institutions (employers, universities), parks, and commercial districts

TIF incentives can be used to help pay for project-related expenses including:

- Demolition
- Environmental remediation
- Land acquisition
- Public infrastructure
- Streets
- Curbs/sidewalks
- Utility relocation
- Parking
- Buildings
- Equipment

Procedures for TIF-supported development projects:

- *City-owned property* -- the City owns the land and therefore must issue a request for proposal; developers are selected through a competitive procurement. The City may recommend a TIF incentive to overcome obstacles to development (environmental issues, etc.).
- *Community-driven projects* -- a community organization (CDC, etc.) or anchor institution partners with a developer and requests support from the City to fund infrastructure projects. The partners typically request a TIF incentive and negotiate with the City if the project meets the City's criteria.

The decision making process is shared by a group of stakeholders. A typical project team generally consists of:

- Initiative Manager (Team Co-leader)
- Sponsor Representative(s)
- Real Estate Expert
- Redevelopment Expert (Team Co-leader for Scheduling, Resolutions and Notifications)
- Neighborhood Liaison(s)
- Environmental Expert
- Planner
- Corporate Counsel
- Feasibility Expert
- Mayor's Office (Economic Development Manager)

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[33] Information taken from a presentation by Michael Huber, Deputy Mayor, made at the March 29, 2012 meeting of the TIF Commission.

CHAPTER 1: Establishment of a Tax Increment Financing District

Economic Development Assessment Criteria:
Not every project that is eligible for TIF incentives will receive consideration by the City. In making this determination, the City's policy is to ask the following questions and apply the following evaluative measures:

- Does the project pass the "but for" test?
- Is the project supported by the neighborhood?
- Does this project have the support of implementation entities? This could include government infrastructure implementation entities, Community Development Corporations and/or private developers.
- Is the project supported by the local anchor institutions (employers, hospitals, universities)?
- Is the project consistent with the community's quality-of-life or similar plan?
- Does this project support public initiatives related to the Economy, Jobs, Environment, Quality of Life, Sustainability, Urban Design, Public Welfare or Fiscal Responsibility?
- Does this project have public support? Have public studies been prepared with stakeholder input? Document studies and integrate with redevelopment plan.
- Does the project generate more than enough increment to support the requested TIF incentive?
- Evaluate the need for redevelopment. Include property building condition, obsolescence, vacancy rates, ownership, etc. and document conditions.
- Select project(s) based on government capability to carry out redevelopment activities such as economic incentives, loans, grants, rehabilitation, acquisition, relocation, abatement and/or site improvements.
- Does this project recycle land that is negatively affected by contamination, flood, hazard, noise or lack of public infrastructure?
- Does this site qualify for redevelopment according to State enabling legislation or Federal law? Are there funds to investigate and implement this project?
- Is the reuse consistent with the Comprehensive Plan?
- Finalize impact analysis, including infrastructure improvements, environmental impact, funding mechanisms, private investment, economic impact, public funding, financing, TIF potential, etc.

Economic activities can be undertaken in response to need and/or opportunity. Resources from philanthropy, special federal or state grants or private investment can add value without the use of local revenues. Projects that leverage significant non-local investment are often given a high priority. TIF is an important implementation tool; however, there are other funding sources, such as user fees, improvement districts, etc.

From the planning and design perspective, projects that help create a positive sense of community and stabilize existing neighborhoods and local businesses are a high priority. Many of the City-County's highest "property tax per acre" areas are in older, dense neighborhoods such as Irvington, Glendale and Meridian-Kessler, among others. The Planning Division of the DMD focuses on identifying quality of place, social, environmental and infrastructure assets and liabilities. Projects are selected based on need and overall positive impact.

The criteria that are used to evaluate the performance of a TIF are necessarily performance and fiscally based. Any performance criteria should also include changes in the quality of place, social, and environmental character of the impact area.

CHAPTER 1: Establishment of a Tax Increment Financing District

Dormant and Perpetual TIF Districts
Each year, the MDC has the opportunity to determine the amount of any excess incremental AV that may be returned to the base for the benefit of any affected taxing units. Discussion of Pass-through policy, dormant TIF districts and TIF districts with no expiration date follows:

Reasons for Keeping a Dormant TIF
A TIF district becomes dormant when all debt has been served and there are no current projects planned within the allocation area. At that point, the municipality can roll the tax increment back into the base as "pass through." Base taxing units now realize the benefit of the increased AV resulting from the economic development activity within the TIF district. As a result, taxpayers' rates are decreased, and the taxing units receive additional tax revenue and reduced circuit breaker credits (all things remaining equal). Terminating the TIF district to allow permanent pass through of the increment back into the base is an option. Yet, there are very good reasons for keeping a TIF allocation area alive:

- Flexibility for Future Projects: There are still potential project sites within the area that, while no current development plans exist, could be future projects. A city wants to remain flexible should these projects occur.
- Impossible to Predict What the Next Project Could Be: There is little to no degree of certainty that a TIF district will no longer be needed in the neighborhood for future public benefit.
- TIF Designation Enhances Community Development: The neighborhood association or community development group may want the TIF to stay in place to help them build on streetscape plans and to market real estate to investors and brokers.
- TIF Pass-Through Goes Back into Taxing Units: by passing the AV through to the base each year, the goals of restoring the AV to the base and retaining the flexibility for Economic Development are both realized.

Reasons for Keeping a TIF in Perpetuity
Similar to the reasoning for retaining a dormant TIF, it also can be advantageous for a TIF to exist in perpetuity rather than have a definitive expiration. As with dormant TIFs, the same objectives can be accomplished by passing through the AV all while retaining the flexibility of having the redevelopment tool of TIF if needed for an important project.

- Same as the "Reasons for Keeping a Dormant TIF" above.
- Certain vital areas need development stimulus: A city should retain its most effective development tool for these areas.
- Infrastructure Has a Finite Lifespan: Over time, infrastructure deteriorates, and TIF may be the best source for improvements especially if it was used to build the infrastructure in the first place.
- It Takes Money, Time, and Resources to Create a New TIF: Not only does it cost time and money but a city loses its financial benefit of what the incremental AV is at that point. Leaving a TIF in place is one way a city can work with neighborhoods on an ongoing basis to remain ready for future generations of community development participation.

CHAPTER 2: Alternative & Complementary Economic Development Tools

While TIFs can be a powerful Economic Development tool, it is also important to consider other available tools. Some of these tools are complementary to TIF and, when applied appropriately, can increase its development power by spurring private investment. In some cases, however, other Economic Development tools may be more appropriate for development projects, depending on factors such as the size and scale of the project, the intended beneficiaries, and the level of flexibility required. Examples of alternate and complementary Economic Development tools include:[34]

General Obligation Bonds[35]

The City-County can issue a general obligation bond (GO bond) to fund capital improvement projects. The bond is secured by the pledge of the City-County's full faith, credit and taxing authority. The bond is repaid by levying an additional debt service property tax on all City-County taxpayers.

Process
Issuing a new GO bond usually requires either a petition-remonstrance process or a referendum to increase property taxes, depending on the cost of the project. When approved by a voter referendum, new property taxes to service GO bonds are not subject to the circuit breaker credit.

Advantages
Given the City-County's AAA credit rating, a stable outlook, and a large and diverse taxing base, GO bonds are a relatively cheap source of project financing. Interest rates on City-County GO bonds are approximately 0.2 percent lower than for TIF bonds. Also, if the bond is approved through a referendum, the debt service for the GO bond is *not* included in the circuit breaker credit. Additionally, GO bonds can be used to fund a variety of projects throughout the City-County; projects are not limited to individual neighborhoods and communities as they are with TIF districts. The City-County can ensure that all projects fit into the overall economic development plan, since it would have full discretion over the projects funded by the bond proceeds.

Limitations
The City-County's credit rating may be compromised with the issuance of additional GO bonds; a significant increase in the debt burden could lead to a credit downgrade. If the bond is *not* approved through a referendum, issuing new GO bonds could lead to increased circuit breaker loss for other funds. Since the approval and issuance of GO bonds can be a lengthy process, it is not always appropriate for economic development projects, which may require quick turnaround and confidentiality. Additionally, the tax burden for the project will be shared by all City-County citizens rather than the beneficiaries of the project, which may raise questions of equity.

Economic Development Revenue Bonds

The City-County can issue economic development revenue bonds and lend the proceeds to a private party borrower for capital investment projects. The city has no liability for repayment of bonds, since the bonds are payable solely from the repayments of the loan by the borrower. Interest on the bond is exempt from federal income tax, which lowers the interest rate and borrowing cost for the private borrower.

Process
The bond approval process requires a public hearing before the Economic Development Commission (EDC), a review by the Council's Metropolitan and Economic Development Committee, and the adoption of a bond ordinance by the City-County Council.

[34] Information taken from presentations by Bruce Donaldson, Attorney, Barnes & Thornburg; Loren Mathes, Principal, H.J. Umbaugh and Associates; and Deron Kintner, Executive Director, Indianapolis Bond Bank, made at the April 12, 2012 meeting of the Commission.
[35] Information taken from a presentation by Deron Kintner, Executive Director, Indianapolis Bond Bank, made at the May 31, 2012 meeting of the Commission. Also, see Appendix 3: Exhibit 4 for S&Ps criteria for rating special purpose districts.

Advantages
The City-County is not liable for repayment of the bonds, nor is its credit at risk. The burden of repayment is on the private borrower not on taxpayers, and there is no effect on City-County property tax revenues. Issuing economic development revenue bonds does not require a referendum or a petition-remonstrance process. Projects can be evaluated on a case-by-case basis to ensure that the loans are made in accordance with the City-County's overall economic development plan. Private borrowers benefit from low-cost, "up-front" capital infusion.

Limitations
There are significant federal tax restrictions on the types of projects that qualify, which are detailed in the Internal Revenue Code. The bonds lower the private party's borrowing cost, but do not provide any credit enhancement or equity. As with GO bonds, the approval and issuance of economic development revenue bonds can be a lengthy process.

Midwestern Disaster Area Bonds

Midwestern Disaster Area Bonds are a special category of tax-exempt bonds available to Marion County until December, 2012. As with the economic development revenue bonds, the City-County can issue bonds and lend the proceeds to a private party borrower. As long as jobs are created, these bonds can be used for a broad range of projects. Interest on the bonds is exempt from federal income tax, and since the bonds are repaid solely by the borrower, the city has no liability for repayment of bonds.

Process
Marion County has been allocated a portion of the State's Midwestern Disaster Area Bonds. The state must approve the allocation of tax-exempt bond capacity for the project. Otherwise, the approval process is the same as for economic development revenue bonds.

Advantages
Midwestern Disaster Area Bonds have similar advantages to the economic development revenue bonds; however, these bonds are more flexible. As long as jobs are created, there are few restrictions on the types of projects that qualify.

Limitations
Midwestern Disaster Area Bonds have similar limitations as the economic development revenue bonds. An important difference is the time sensitivity of these bonds- they are only available through December 2012.

Industrial Development Bonds

Industrial development bonds (IDB) are a subset of economic development revenue bonds that are available to private borrowers to lower the cost of capital investment projects. The City-County can issue a bond and lend the proceeds to a private borrower, as long as the project creates jobs in manufacturing or solid waste. Like economic development revenue bonds, these bonds are tax-exempt and the private party borrower is solely liable for repayment.

Process
There are statewide volume caps on the issuance of IDBs, so the City-County must receive state approval to issue them. Otherwise, the approval process is the same as for economic development revenue bonds.

Advantages
IDBs have similar advantages to the economic development revenue bonds.

Limitations
Projects are restricted to manufacturing or solid waste, and the company's capital expenditures must be less than $10 million for a 6 year period for manufacturing projects. Additionally, since there is a statewide volume cap for IDBs, it is possible these bonds might not be available in a given year. Otherwise, IDBs have similar limitations as the economic development revenue bonds.

Economic Improvement Districts[36,37]

Economic improvement districts (EIDs) are special purpose districts that use a special assessment on property owners in the district to fund new development projects, such as streets and sidewalks, infrastructure, parking facilities, and building rehabilitation. In addition to normal property taxes, all property owners in the EID pay a mandatory assessment that is representative of the diffusion of the benefit from the projects. The special assessment is added to property tax bills based on an apportionment formula, collected by the City-County Treasurer, and returned to the EID to use for its development projects. To finance large projects, the EID may issue revenue bonds.

Process
To create an EID, the majority of property owners must agree on the boundaries of their potential district, create an operating plan and budget, and develop a formula for the special assessment. Then, the property owners can petition the City-County Council to form an EID. After holding public hearings, the Council can adopt an ordinance establishing the EID and creating a Board. The Board must present its budget to the Council for approval on an annual basis. The EID is authorized for up to 10 years, after which it can reapply to the Council.

Advantages
EIDs are self-organizing, self-governing, and self-taxing, which allows a community to manage its own economic development goals. The special assessment is *not* included in the circuit breaker credit, and there is no effect on City-County property tax revenues. If the EID issues bonds, the City-County is not liable for repayment of the bonds, nor is its credit at risk. The burden of repayment is on the EID property owners. Since the EID board must submit an annual budget to the Council for approval, the Council retains oversight of the EID's development projects and can ensure that the plans align with overall City-County economic development goals.

Limitations
EIDs require significant community initiative and cooperation; top-down attempts by the City-County to encourage EIDs may be ineffective. Property owners in EIDs pay additional taxes, which can potentially make property more expensive and less competitive. Since EIDs have a limited source of revenue, bonds are difficult to market without outside revenue or credit enhancement. Due to these limitations, large, high-impact projects may not be economically feasible. Also, since revenue for the EID is collected through property taxes, these districts can create additional administrative burden for the City-County Auditor and Treasurer.

Property Tax Abatement

The City-County can offer private businesses property tax abatement as an incentive for capital investment and job creation. Abatement relieves all or a portion of a company's property tax liability for a prescribed period of time by allowing a reduction in the assessed property value. Property taxes may be gradually phased in over a period of 1-10 years. Eligible projects include real property, such as new buildings and new improvements to existing buildings, and personal property, such as new equipment, logistical distribution, information technology, data centers, or research and development purposes. Retail and residential facility projects are eligible on a limited basis.

[36] See IC 36-7-22. Economic Improvement Districts were authorized by State legislation passed in 1988; however, no EIDs have been established in City-County at this date. The Southeast Neighborhood Development Corporation (SEND) is currently in the process of creating an EID, which may be presented to the Council by the end of 2012. Midtown created a voluntary EID in 2009.
[37] For more information, see Indiana Department of Transportation's report on EIDs.

Process
The Metropolitan Development Commission (MDC) adopts a declaratory resolution to establish an economic revitalization area (ERA). After public hearings, the MDC can establish an ERA. Applicants in the ERA can submit a statement of benefits for MDC approval, and the assessed deduction schedule is determined.[38] The recipient must file an annual deduction application with the MDC and the Auditor to receive the deduction. Abatement may be tied to performance measures in a memorandum of understanding (MOU), such as expected levels of investment or the anticipated number of jobs created. If the private business fails to honor the MOU, the abatement may be terminated for non-compliance and the business may be required to rescind the abated taxes (claw back). Abatement is approved by the Metropolitan Development Commission unless the ERA is within a TIF allocation area. When the ERA and TIF overlap, City-County Council approval is required.

Advantages
Property tax abatement allows the City-County to attract companies that will invest in the community and create jobs by reducing their annual operating expenses. The Council can ensure that agreements fit into the overall economic development plan, since it has discretion over the statement of benefits. When tax abatement is tied to MOUs requiring a predetermined level of investment, job creation, and claw backs, the City-County can ensure that foregone taxes are being used to encourage responsible economic development.

Limitations
Property tax abatement reduces property taxes that would normally be due to the local government. Abatement does not provide the companies with “up-front” project investment, and the value of cash flow relief during the abatement period may not be enough of a financial incentive to make projects viable. When used in conjunction with a TIF district, abatement limits the amount of incremental AV available to the district, which can make it more difficult to obtain project financing. Historically the number of tax abatement projects also in a TIF district has fluctuated. In 2010, 3 of 19 projects (33%) were both TIF and ERA-related. In 2011, 48% (13 of 27) of the abatements were in TIF districts. And so far in 2012, 2 of 11 projects (18%) have been in TIF districts. The number of TIF/Abatement projects annually will fluctuate; however, DMD reports that most abatement projects do not require Council approval.

Cumulative Capital Development Fund[39]

The cumulative capital development fund (CCD fund) is used to accumulate funds for future capital expenditures, eliminating or reducing the need to borrow (thus avoiding the associated interest costs). Funds may be used for any purpose for which property taxes may be imposed within the City-County, including infrastructure, bridges, and public buildings, and public safety.

Process
The City-County has an established a CCD fund, which is funded by levying a tax on the taxable property in the City-County (subject to the circuit breaker credit). The money must be applied to capital expenditures and is allocated through the regular budget and funding process.

Advantages
There are few restrictions to the use of the CCD fund; therefore a wide variety of economic development projects, such as roads and infrastructure, can be financed through this fund. Since the CCD fund is subject to routine budgeting process, this is a quick and easy source of funds for projects, relative to many other tools. The fund has a revenue stream of approximately $10 million per year, and this constant income stream can be leveraged to finance long-term projects.

Limitations
Since all City-County property owners contribute to the CCD fund, financing economic development projects that only benefit specific neighborhoods may raise questions of equity. Additionally, projects which hope to use CCD funds must be weighed against the other capital needs of the entire City-County.

[38] Council approval is required if the business is in a TIF allocation area established after July 1, 2008.
[39] See Municipal Cumulative Development Fund, IC 36-9-15.5.

CHAPTER 2: Alternative & Complementary Economic Development Tools

Certified Technology Parks[40,41]

Certified Technology Parks (CTPs) are designed to attract high-technology businesses, promote technology transfer, and encourage high-technology clustering. The incremental retail and income taxes generated in the CTP are reinvested back into the park and used to finance infrastructure improvements, buildings, and other public improvements.

Process
The City-County must file an application for designation of a CTP with the Indiana Economic Development Corporation (IEDC). The IEDC may designate the CTP and enter into a governance agreement with the MDC and the Council. Then the incremental state and local income taxes and state sales taxes generated in the CTP are deposited into a CTP Fund, which can then be used for approved development projects. The CTP may capture up to $5 million in incremental taxes over its lifetime, and must be reviewed and recertified every 4 years by the IEDC.

Advantages
CTPs capture and keep up to $5 million of all of the CTP's state sales and use tax, state income tax, and local income tax, including that of non-resident employees. CTPs allow the City-County to target high-technology development. The CTP can issue bonds to finance development projects, secured by its incremental tax revenue stream.

Limitations
CTPs may have limited use as an economic development tool since they are restricted to projects that involve high-technology activities and the lifetime cap on the amount of revenue that may be captured. Additionally, CTPs requires state approval and coordination,

Community Revitalization Enhancement Districts[42]

Community revitalization enhancement districts (CREDs) encourage revitalization of industrial and commercial sites within a targeted area. Businesses in the CRED can qualify for tax credits up to 25 percent of their investments in redevelopment. Additionally, incremental state and local income tax and sales tax can be used to fund redevelopment efforts in the CRED.

Process
CREDs may capture up to $750,000 in annual incremental employee income and retail sales taxes (up to 75%) with a 15 year district limit. Otherwise, the approval process for CREDs is similar to CTPs.

Advantages
CREDs have similar advantages as CTPs, but last longer and have more flexibility, since they are not limited to high-technology businesses.

Limitations
CREDs have similar limitations as CTPs. Additionally, under state law Marion County is only allowed one CRED.[43]

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[40] See certified technology parks, IC 36-7-32.
[41] The City-County currently has 4 CTPs: Downtown Indianapolis, Intech Park, Purdue Research Park, and City Way.
[42] See Community revitalization enhancement district tax credits, IC 6-3.1-19.
[43] Marion County already has one CRED- Lafayette Square, which expires in 2019.

CHAPTER 2: Alternative & Complementary Economic Development Tools

Local and County Option Income Taxes[44]

Local option income taxes (LOIT) and county option income taxes (COIT) are additional income taxes imposed on residents of the County and non-residents who work in the County. They can be used for general purposes as allowed by the statute, such as property tax replacement, capital projects, economic development, and municipal operating expenses. The revenue stream from LOIT and COIT can be leveraged to finance large projects.

Process
LOIT and COIT are imposed on the Indiana adjusted gross income of workers in the City-County. Distribution of LOIT and COIT revenues is based on the eligible units' proportionate share of the property tax levy. Bonds can be secured with the LOIT and/or COIT income tax revenue stream, but are limited to a combined rate of 1.0%. Their revenues can be combined and pledged to the repayment of the same bond issue, and the income tax supported bonds can also be "backed up" with a pledge of property taxes.

Advantages
LOIT and COIT capture additional local income tax, including that of non-resident employees. Since they can be used for general purposes, they are a very flexible financing option for a variety of economic development projects. Their revenue can be combined to issue bonds to finance development projects, secured by its tax revenue stream.

Limitations
Economic Development projects must compete with other public services and capital projects for LOIT and COIT funds. The revenue stream from LOIT and COIT is subject to changes in income, which means that they may not be a reliable source of income. Bond investors typically require a debt reserve and sufficient bond coverage. Also, LOIT/COIT Bonds may count towards the City-County's debt limit. The City-County does not receive the LOIT charged to non-residents whose resident county also has a LOIT.

Other Economic Development Tools

There are a number of other tools and programs available for redevelopment and economic development projects. For example, at the City-County level, other taxes can be levied, such as Food & Beverage, Innkeepers, or Wheel and Surtax. The City-County could authorize the New Employee Income Tax, which would give hiring incentives to companies from new employees' wages.[45] Additionally, there are a number of programs and grants at the state and federal levels which may prove useful. For example, the New Market Tax Credit Program (NMTC) is a federal program that uses federal tax credits to encourage new or increased capital investment in low-income communities.[46] Another example is the Environmental Protection Agency's Brownfield Redevelopment program, which provides tax incentives and grants to encourage remediation and development of contaminated, dilapidated, or obsolete industrial sites.[47]

[44] See County option income tax, IC 6-3.5-6.
[45] See Local option hiring incentive, IC 6-3.5-9.
[46] See New markets tax credit, IRC §45D.
[47] For more information, see the Environmental Protection Agency's Brownfields website.

CHAPTER 3: Fiscal Analysis of Tax Increment Financing

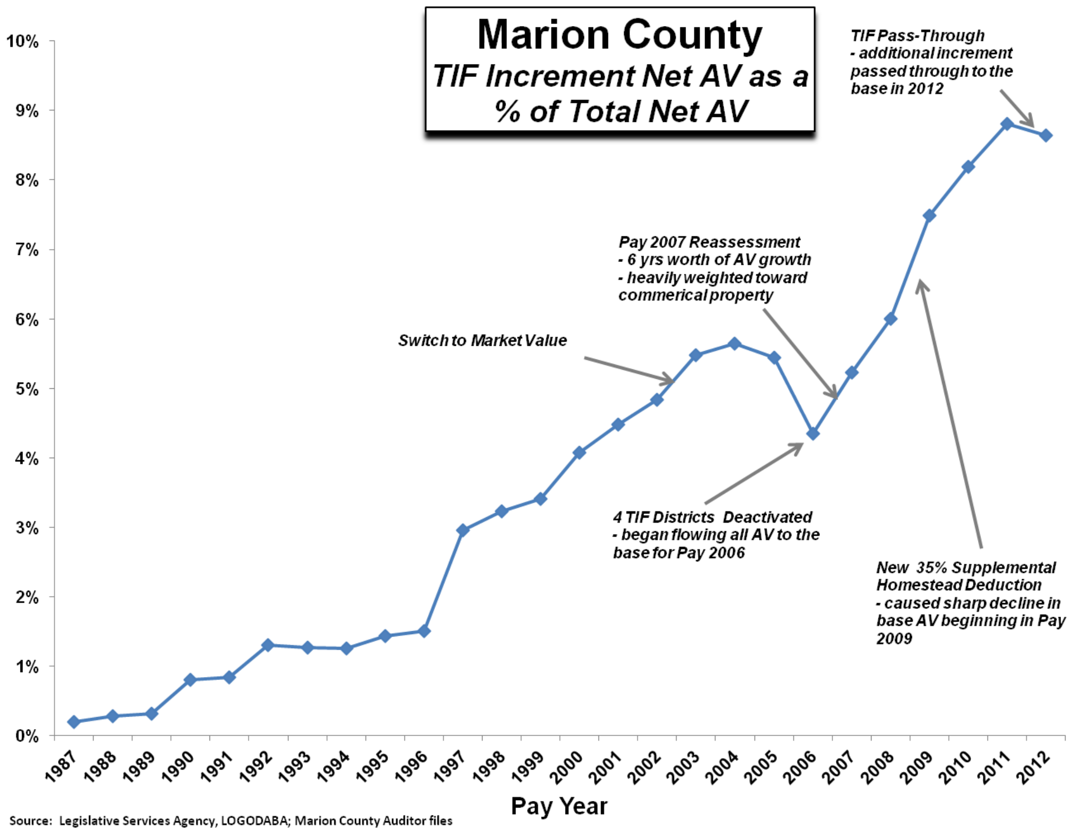
This chapter presents an assessment of the financial impacts of tax increment financing in Marion County.[48] The Marion County Auditor is the source for information pertaining to assessed value, property tax revenue, and circuit breaker credit. A significant portion of the document is focused on describing the effects of TIF policy issues such as TIF neutralization, the circuit breaker credit, and TIF pass-through decisions. While much of this analysis uses actual data, where hypothetical decisions are tested, Policy Analytics' parcel-level Local Government Revenue model is used to simulate the effects of these decisions. This document is intended to serve as a framework for evaluating TIF policy options, and does not represent an endorsement or recommendation of any specific policy option.

Assessed Value Overview

Increment AV as a Percentage of County Net AV

Figure 10 displays the sum of Marion County TIF increment net AV (including Indianapolis, Beech Grove, Speedway and Lawrence TIFs) as a percentage of the total county net AV, from the period of 1987 to 2012. Since 1987, when TIFs were a relatively new policy option, increment net AV has grown to approximately 8.6% of the total county net AV.[49]

Figure 10



[48] Chapter 3 is based on the fiscal analyses and modeling performed by Jason, O'Neill, Senior Consultant, Policy Analytics. See a presentation by Jason O'Neill made at the April 5, 2012 meeting of the Commission.

[49] See Appendix 2: Exhibit 1 for data on TIF increment AV as a percent of unit net AV.

The factors that affect significant changes on the above time series are described in the following notes:

2006: The outstanding bonds for four TIF districts (440, 640, 740 and 840) were defeased in 2006. In 2006 and in each year after (as of 2012) these TIF districts were deactivated by the MDC. This decision reduced increment AV to 4.35% of County net AV. In 2012, the inactive TIFs returned approximately $720.2 million in AV to the Marion County tax base.

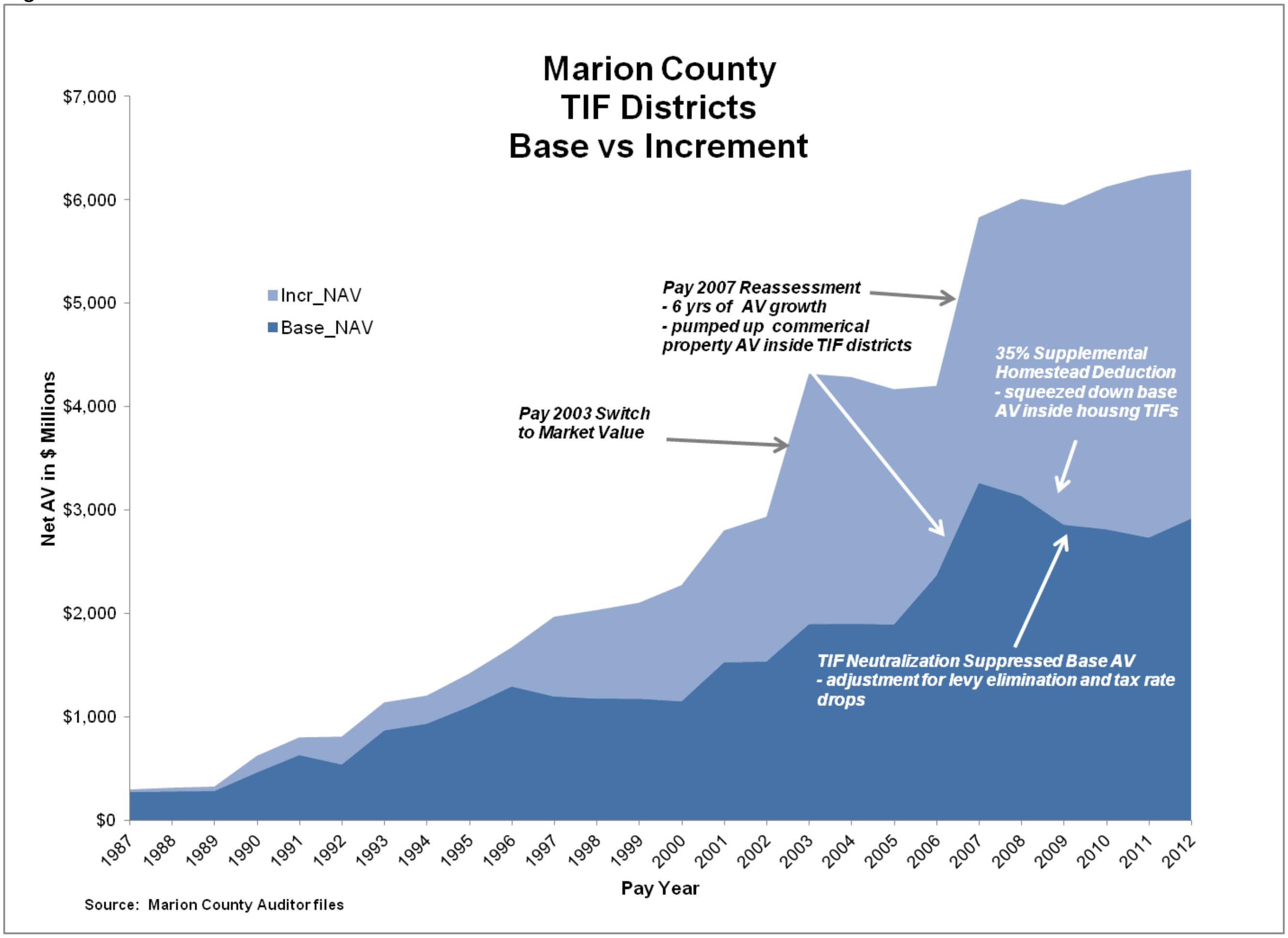
2007: In 2007, Indiana first instituted a market-based property assessment adjustment procedure known as "trending". In Marion County, trending was implemented along with a state-ordered special reassessment. The first year of trending adjustments encapsulated market value assessment changes from a 6-year (1999-2005) period. This means the AV difference between the 2006 and 2007 tax years represent six years of changes in market prices. In Marion County, the reassessment increased commercial AV at a greater rate than other property classes, exacerbating the effect of trending on TIF districts. The 2007 reassessment caused incremental AV to increase to 5.2% of total net AV.

2009: In 2009, among other changes stemming from the 2008 property tax reform, Indiana instituted a 35% supplemental homestead deduction. This deduction reduced the Marion County tax base by approximately 15%, thereby increasing the ratio of increment AV to total AV.

CHAPTER 3: Fiscal Analysis of Tax Increment Financing

Base and Increment AV History
Figure 11 shows a history of base and increment AV within Marion County TIF districts from 1987 to 2012. By 2012, Marion County TIF districts contained $2.9 million in base AV and $3.3 million in incremental AV.

Figure 11



2003: The state of Indiana implemented market value assessment standards in 2003. The change from True Tax Value (TTV) assessments to market-based assessment caused a general increase in base and increment AV.

2007: In 2007, Indiana first instituted a market-based property assessment adjustment procedure known as “trending”. In Marion County, trending was implemented along with a state-ordered special reassessment. The first year of trending adjustments encapsulated market value assessment changes from a 6-year (1999-2005) period. This means the AV difference between the 2006 and 2007 tax years represent six years of changes in market prices

2009: Beginning in 2009, due to a number of factors, the result of the state-mandated TIF neutralization process resulted in a net decrease, or depletion, of the base AV within some TIF districts. Between 2008 and 2011, the total base AV of Marion County TIFs decreased by $400 million, or 12.8%.

2012: In 2012, the policy decision was made to pass approximately $200 million in increment net AV through to the base. This decision increased the 2012 base AV to within 7% of the 2008 level.

CHAPTER 3: Fiscal Analysis of Tax Increment Financing

TIF Neutralization[50, 51]

TIF neutralization is a legally required process that is intended to neutralize the effect of external factors on the base and increment. This adjustment is required annually in accordance with Indiana Administrative Code (IAC) 50 8-2-12.[52] The specific procedure is mandated by DLGF and is used throughout Indiana. The TIF neutralization process has three major outcomes:

- Adjust the base AV for market value trends (either upward or downward, depending on market conditions). This is to ensure that the AV growth captured in the increment is due to investment, and not simply the result of changes in market price.
- Maintain at least as much incremental revenue in the ensuing year as in the preceding year. This provision is to reduce the redevelopment commission's risk of default, and to protect bondholders in the case of AV reductions or policy major changes.
- Provide the basis for the initial debt service projections for the upcoming tax year.

TIF neutralization results in either an increase or a decrease in base AV depending on a number of factors. In recent years, the TIF neutralization process has resulted in a decrease in base AV (base depletion) for some TIF districts. The major causes of base depletion in the neutralization process are described below:

1) Elimination of levies and tax rates due to the State assuming School General and County Welfare levies

As part of the House Enrolled Act (HEA) 1001-2008 property tax reform, the State assumed the responsibility for funding school operating costs and county welfare functions beginning in 2009.[53] When these costs were transferred to the state, the property tax supported funds and associated tax rates were eliminated. This reduced the overall tax district rate used to generate incremental revenue from TIF districts. Figure 12 shows the reduction in tax rates from 2008 to 2009 as a result of the elimination of the school general and county welfare levies.

Figure 12

Property Tax Rate Composition for District 101		
	2008	**2009**
City-County Functions	1.3767	1.2147
Center Township	0.0510	0.0578
Library, IndyGo, Hospital	0.3521	0.3254
Indianapolis Public School	1.7668	1.1569
Total Tax Rate	3.5466	2.7548

The reduced tax rate meant that a given level of incremental AV generated less revenue in 2009 than in 2008. As a result, to maintain a consistent level of revenue and to protect bondholders, the TIF neutralization process requires that a portion of base AV be moved into the increment.

2) Introduction of the supplemental standard deduction reduced net AV in housing TIF's

A supplemental standard deduction was introduced in 2009 that provided an AV reduction to taxpayers equal to 35% of post-standard deduction AV. This deduction significantly reduced the amount of AV in housing TIF's. The TIF neutralization process counteracted this effect by shifting base AV to the increment, and therefore reducing base AV.

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50 See Appendix 1: Exhibit 3, section 53(h) (1), IC 36-7-15.1.

51 See Appendix 2: Exhibit 4 for data on Marion County TIF neutralization, with pass-through.

52 See Appendix 1: Exhibit 6, section 2-12, 50 IAC 8.

53 See Appendix 3: Exhibit 3, Overview and Highlights of HEA 1001- 2008.

3) **The economic downturn had a sustained, negative impact on assessed valuation (both county-wide and within TIF districts)**
One of the outcomes of TIF neutralization is to make market value adjustments to the TIF base. The recent economic downturn led to depressed property valuations throughout the county, which carried through reductions to the TIF base.

4) **Protection for property tax appeals**
The TIF neutralization process includes a provision to protect incremental revenue (and thus debt service resources) from property tax appeals. The 2006-07 special reassessments led to an increased number of property tax appeals, especially within the consolidated allocation area. Between 2007 and 2011, approximately 18% of the incremental revenue produced by real estate in the consolidated allocation area was returned to taxpayers in the form of refunds.

Due to a large backlog of property tax appeals in the County Assessor's office, there remain a significant number of appeals outstanding from prior tax years in TIF districts. Figure 13 shows the number of remaining open appeals by tax year for the Marion County TIF districts.

Figure 13

Open Property Tax Appeals in Marion County TIF Districts

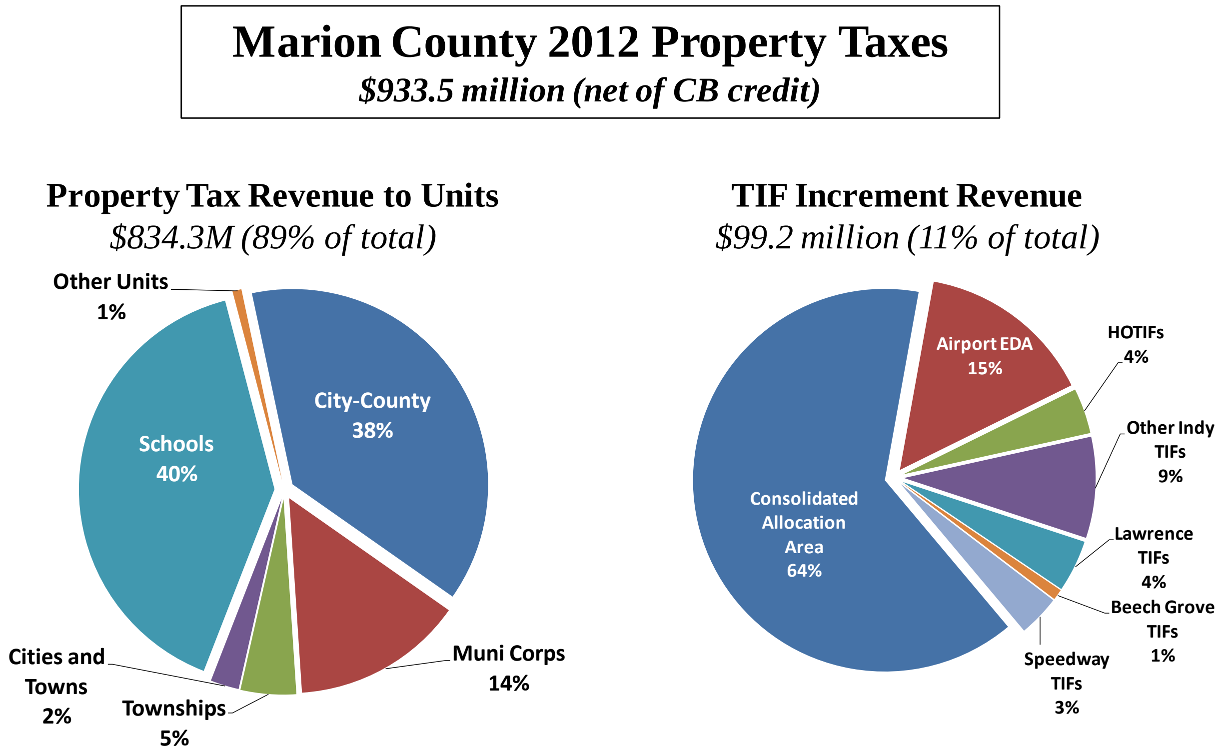
TIF Area	Tax Year Under Appeal						
	2006	2007	2008	2009	2010	2011	Total
Consolidated Allocation Area	27	53	50	51	79	28	288
Airport Allocation Area	37	60	64	70	145	15	391
Housing TIFs	4	83	127	113	110	109	546
Other Indianapolis TIFs	19	53	85	45	175	134	511
Excluded Cities' TIFs	21	48	46	59	100	27	301
Total	108	297	372	338	609	313	2037

CHAPTER 3: Fiscal Analysis of Tax Increment Financing

Marion County Property Tax Revenue

When assessing the financial implications of TIF policy, it is important to start from the broader context of the Marion County property tax environment. Property taxes are the largest source of revenue for Indiana local government units (other than schools). In the 2012 tax year, Marion County levied more than $933 million in property taxes (net of circuit breaker). Approximately 89% of Marion County property tax revenues flow to local taxing units. About 52% of non-increment property taxes are allocated to Indianapolis-related taxing units. Indianapolis city functions will receive $318 million in 2012, and the Indianapolis-Marion County Library, Health and Hospital Corporation, and IndyGo will receive a combined $80 million. The remaining non-increment property tax revenue is distributed to school corporations, townships and excluded cities.

Figure 14



TIF incremental revenue accounts for approximately 11% of the property taxes billed in Marion County. The Indianapolis Consolidated Allocation Area receives the largest share of incremental revenue in 2012 -- $63 million, or 64% of the total. The Airport TIF receives 15% of increment revenue, and the other Indianapolis TIF districts share 13%. TIF areas in the excluded cities – Lawrence, Beech Grove and Speedway receive 8% of increment revenue.

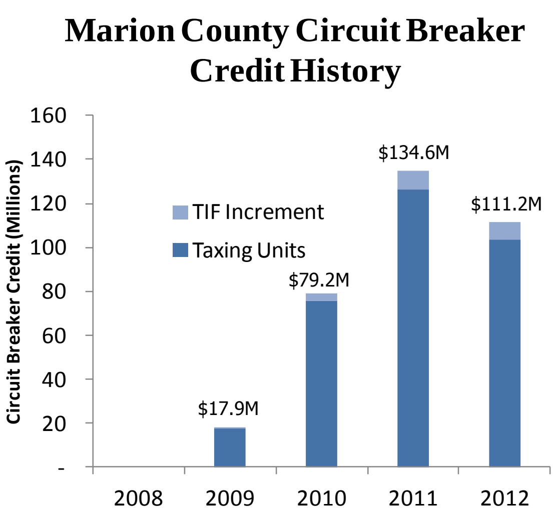
CHAPTER 3: Fiscal Analysis of Tax Increment Financing

Circuit Breaker Credit Overview
In 2008, the Indiana General Assembly enacted a series of property tax reforms in HEA 1001-2008 that have significantly altered the landscape of local government finance generally, and tax increment finance specifically.[54] One of the property tax reforms was the institution of parcel level, rate based property tax controls that became known as the "Circuit Breaker Credit." Once fully established, the circuit breaker limited property taxes to 1% of homestead property AV, 2% of rental, residential and agricultural land AV, and 3% of AV for all other property taxes. While the circuit breaker credit made property tax obligations much more predictable for taxpayers, it introduced a high degree of uncertainty into local government budgeting.

Prior to the circuit breaker credit, growth in property tax revenue was determined primarily by levy controls. Each year, the State would determine the maximum allowable levy growth rate (based on trends in Indiana non-farm personal income). Taxing units were virtually guaranteed to receive their allowable (certified) levy, regardless of fluctuations in the property tax base. If the tax base increased or decreased in value, movements in the property tax rate would offset that change. Before the circuit breaker credit, property tax levies were determined by governmental units (within State controls), and tax rates adjusted to achieve the appropriate level of revenue.

The introduction of the circuit breaker credit changed the dominant system of property tax control from levy controls to rate controls. Under the circuit breaker credit, property tax revenues are capped at a certain rate, or percent of AV. With circuit breakers, the rate is controlled and the property tax levy adjusts to the amount of revenue that can be produced by a unit's tax base. In the post-circuit breaker environment, once all parcels reach the circuit breaker, property tax revenue growth only occurs through growth in the tax base (increase in the market value of the property).

Figure 15



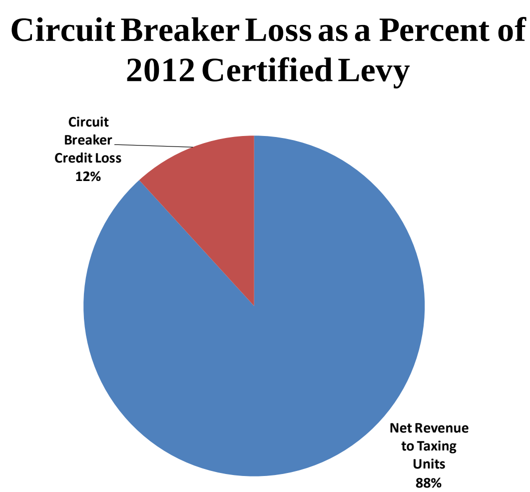


Figure 15 shows the impact of the circuit breaker credit in Marion County. In 2012, the circuit breaker amounted to $111 million, or 12% of total property tax revenue. The circuit breaker credit affects both property tax revenue to units, and TIF increment revenue. Approximately 7% of the total circuit breaker loss is absorbed by the TIF increment.

[54] See Appendix 3: Exhibit 3, Overview and Highlights of HEA 1001- 2008.

CHAPTER 3: Fiscal Analysis of Tax Increment Financing

Circuit Breaker Credit and Tax Increment Financing
The introduction of the circuit breaker credit has fundamentally altered the fiscal implications of tax increment financing, and has necessitated changes in how decision makers approach TIF policy. Before circuit breaker credits were in effect, TIF capture did not largely impact a base unit's property tax revenues. If TIF districts captured more AV, tax rates adjusted and taxing units did not experience a revenue shortfall. With circuit breakers in effect, an increase in tax rate does not produce a corresponding increase in revenue, and the capture of TIF AV can have negative fiscal implications for taxing units. Figure 16 summarizes the implications of tax increment financing in the pre-circuit breaker and post-circuit breaker environments.

Figure 16

Impact of Circuit Breaker Credit

On the Relationship between TIF Districts and Taxing Units

Pre-Circuit Breaker Credit	Post-Circuit Breaker Credit
• Taxing unit property tax revenue determined by <u>levy</u> controls.	• Taxing unit property tax revenue determined by <u>rate</u> controls.
• Maximum levy growth determined by change in Indiana personal income.	• Levy controlled funds act more like rate controlled funds. Homesteads limited at 1%, other residential at 2%, all other property at 3%.
• Revenue growth is virtually guaranteed – tax rates adjust to generate revenue necessary to fund levies.	• Once all parcels reach circuit breaker, revenue growth only occurs through growth in the tax base.
• TIF activity does not largely impact property tax revenue for other taxing units.	• TIF activity can have negative revenue implications through higher circuit breaker losses.*

*This occurs because only base AV is used to set property tax rates, and TIF capture results in a smaller tax base, higher tax rates, and therefore greater circuit breaker losses.

CHAPTER 3: Fiscal Analysis of Tax Increment Financing

TIF Increment Pass-Through Decisions[55,56]

The primary mechanism available to local governments to manage the relationship between TIF increment and TIF base is the annual TIF pass-through decision. In this decision, the Redevelopment Commission determines the amount, if any, of excess incremental revenue that should be returned to the TIF base. Figure 17 shows the pass-through amounts of Indianapolis TIFs in 2012.

Figure 17

2012 TIF Increment Pass-Through (in millions of dollars)	
Allocation Area	AV Pass-Through
Consolidated Allocation Area	97.6
Harding Street Redevelopment	55.2
Glendale Redevelopment	15.9
86th St. TIF- Dow Elanco (partially dormant)	273.1
Tibbs Ave.TIF- Rolls Royce	8.3
Lawrence 96th St. (dormant)	139.7
Washington 96th St. (dormant)	289.5
Brookville/Senour Allocation Area (dormant)	17.9
Total 2012 TIF pass-through	**897.4**
Dormant TIF pass-through	*720.2*
Active TIF pass-through	*177.0*

TIF increment was passed-through to the base in eight TIF districts. Four of these TIF districts are dormant, or partially dormant, and have been inactive since 2006. For the other five TIF districts, 2012 is the first year of increment pass-through. Figure 17 does not reflect the decision not to collect Consolidated Allocation Area personal property TIF replacement revenue in 2011 and 2012, which reverted $350 million in AV to the tax base in those years.[57]

[55] See Appendix 1: Exhibit 3, section 26(b) (4) (B), IC 36-7-15.1.

[56] See Appendix 2: Exhibit 5 for data on the estimated impact of passing $100M of consolidated allocation area increment AV to the base.

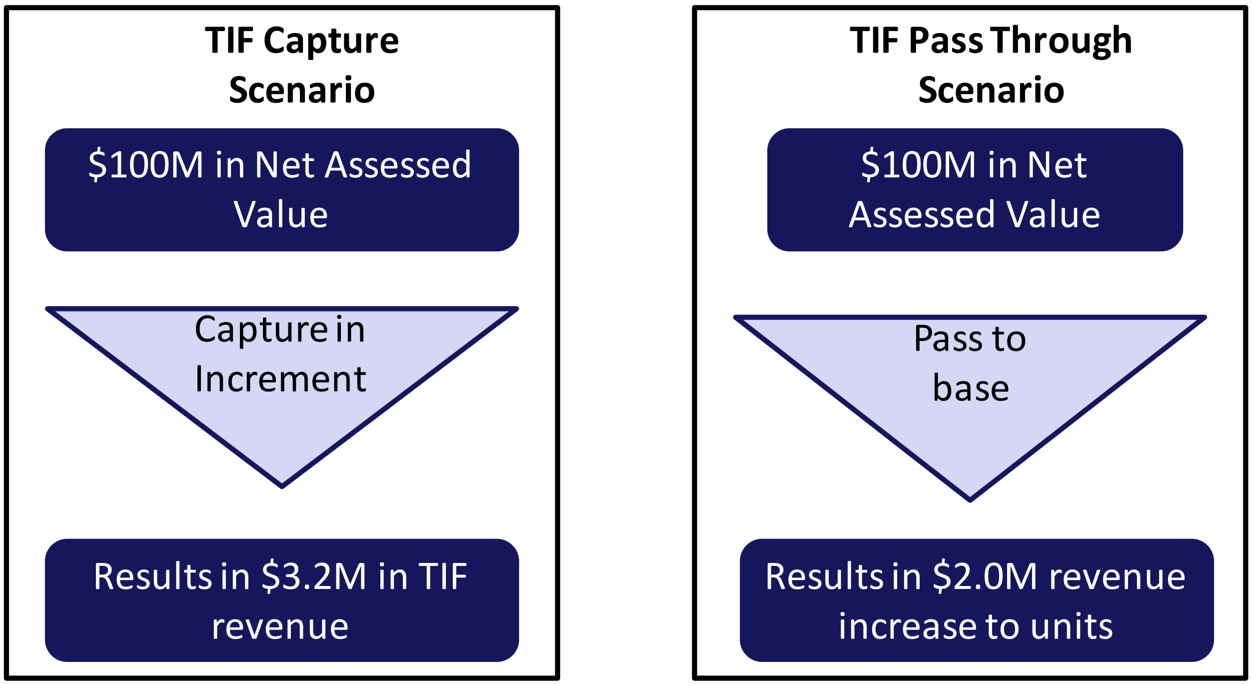
[57] See Tax increment replacement, IC 6-1.1-21.2-12(f). It includes a provision to use revenue from personal property assessed value to replace increment revenue lost in the Consolidated Allocation Area due to HEA 1001-2008. This provision was exercised in the 2008-09 and 2009-10 tax years by MDC resolution. Due to sufficient increment revenues, no replacement funds were authorized for capture in the 2010-11 and 2011-12 tax years.

Fiscal Impact of TIF Pass Through[58]

One result of passing AV from the increment to the base is an increase in revenue to local taxing units. Passing AV to the base reduces the property tax rate and reduces the circuit breaker impact to taxing units. However, the relationship between circuit breaker relief and increment pass-through is non-linear and decreases as more AV is released to the base. For example, in Marion County, when $100 million of AV is passed-through, $3.2 million in increment revenue translates to $2.0 million in additional property tax revenue to units (63%). If all TIF increment is passed-through, $99 million in increment revenue would translate to $43 million in additional property tax revenue to units (43%). The effectiveness of TIF pass-through at generating new revenue decreases as the impact of the circuit breaker credit is mitigated.

Figure 18

Fiscal Impact of TIF AV Pass-Through

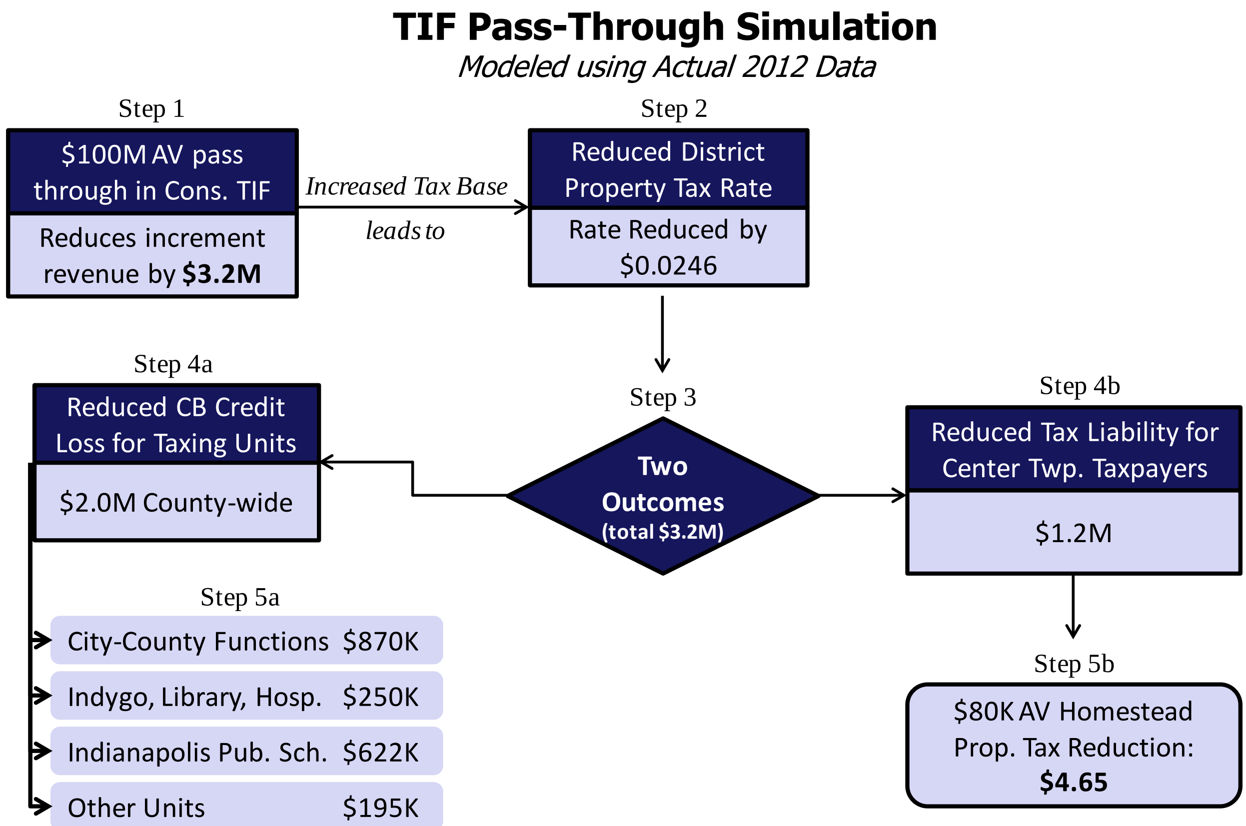


[58] See Appendix 2: Exhibit 5 for data on the estimated impact of passing $100M of consolidated allocation area increment AV to the base.

The schematic in Figure 19 shows the simulated results of passing $100 million in AV from the increment to the base in the Consolidated Allocation Area. Passing-through $100 million in increment AV reduces increment revenue by $3.2 million. This action results in two outcomes:

1) Reduced circuit breaker impact results in an additional $2.0 million in revenue for taxing units
2) Reduced tax rates result in a $1.2 million in property tax reduction for Center Township taxpayers.

Figure 19



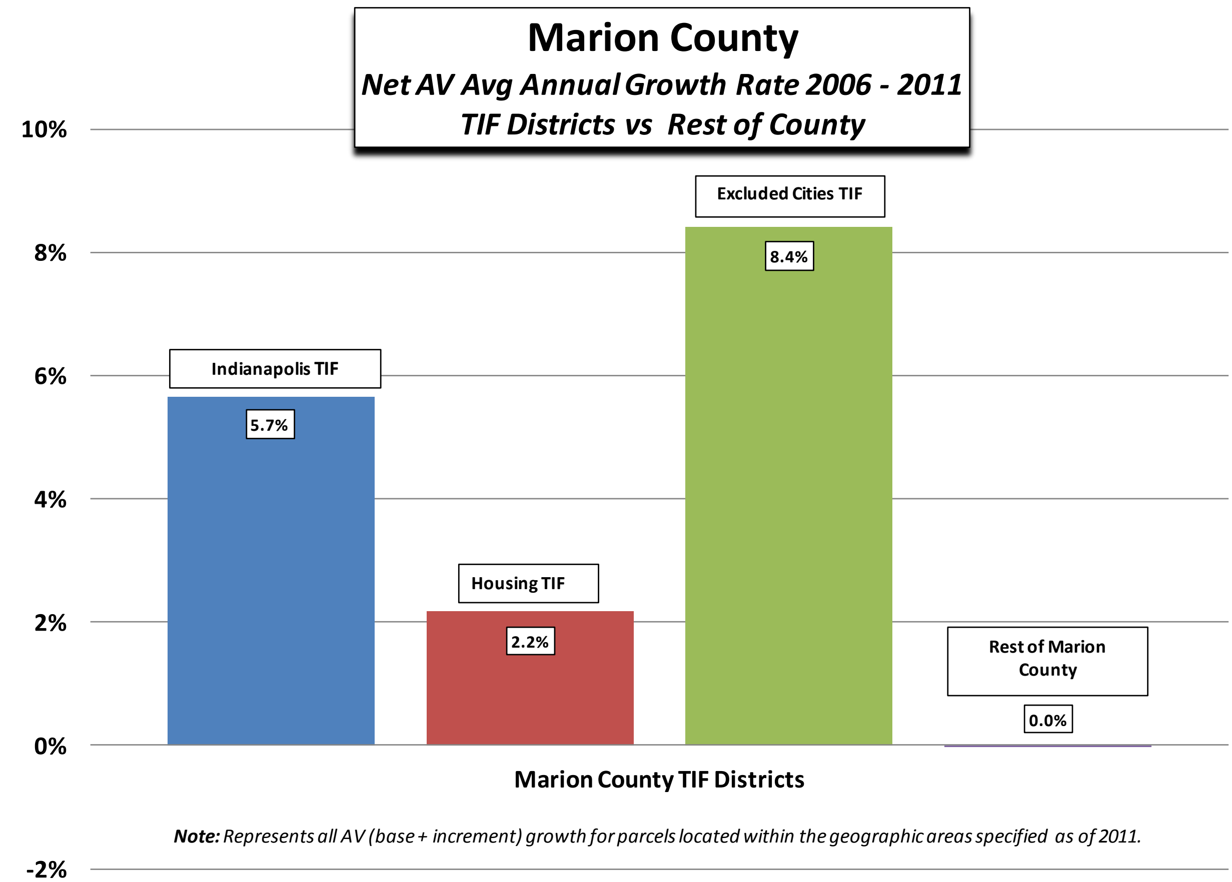
CHAPTER 3: Fiscal Analysis of Tax Increment Financing

Geographic Location of AV Growth

One of the key realities of post-circuit breaker fiscal policy is that property tax revenue growth is primarily driven by AV growth, especially for urban areas that are significantly impacted by the circuit breaker. This means that for a given unit's geography, capturing all of the AV growth within TIF districts, even if used for legitimate and prudent development purposes, will eventually choke off the property tax revenue growth needed to keep pace with the rising costs of providing public services. As Figure 20 shows, from 2006 to 2011 the AV of properties within Indianapolis TIF districts grew at an average rate of 5.7% per year, while the AV in the non-TIF portions of the county remained flat.

Prior to the introduction of the circuit breaker, this growth pattern would not have materially affected local government revenues, and taxing units would continue to receive the annual permissible levy growth. However, in the post-circuit breaker environment, if all AV growth is captured within TIF districts, the result will be a stunting of property tax revenue growth to units. This reinforces the need of an active strategy to manage the allocation of AV growth between the general tax base and the TIF increment.[59]

Figure 20



[59] See Appendix 2: Exhibit 3 for data on TIF districts and growth in gross AV in Marion County.

CHAPTER 4: Financial Practices in Tax Increment Financing

Tax increment financing most often involves the issuance of public debt in the form of tax revenue bonds. This section will review standard industry guidelines for financial information and practices as well as the practices of the City of Indianapolis with regard to TIF debt issuance.

As previously mentioned, incremental tax revenue can be used to fund projects directly, or on a pay-as-you-go basis, using dollar for dollar the taxes collected in the TIF district. Alternatively the taxes can be leveraged by borrowing against the projected revenue stream that will flow from the increase in assessed value as the project improvements are realized.

Underwriting and Credit Factors – Industry Standards[60, 61]

When projects are financed through debt, underwriters assess a variety of factors to gauge the marketability of a bond issuance. In general, the favorable aspects of tax increment bonds include the fact that the bonds do not create an additional tax burden for taxpayers, reliable tax collection rates (assuming the area is not concentrated by a small number of taxpayers) and expected growth in tax revenue from the new development and increasing property values.

Among the risks related to tax increment bonds are that the pace and rate of development in the project area are outside the control of the debt issuer; and the risk of reduced tax increment revenues as a result of changes in tax law or assessment practices and changes or volatility in real estate markets (commercial, industrial and/or residential, depending on the area under consideration).

Underwriting assessment also includes an analysis of the project area, a review of taxpayer concentration, historical assessed valuation growth, future assessment growth, management of the redevelopment authority, legal considerations, financial operations and cumulative tax limits.

Factors that Influence Underwriting Considerations include:

- Reserve levels
- Tax base growth or decline
- Vacancy rates
- Foreclosure and tax collections rate
- Downturn in commercial, industrial and residential development
- Amount of changes in debt level

Legal considerations in bond issuances include factors such as:

- Ensuring the pledge of the security (the incremental property tax revenue)
- Debt Service Coverage, which measures the amount by which tax revenues exceed the annual debt service amount. The industry standard is 125% coverage.
- Whether there are legal requirements to pass the entire increment to the development authority
- Frequency and success of property tax appeals.

[60] Information taken from a presentation by Whit Moloney Vice President, Piper Jaffray, at the May 24, 2012 meeting of the Commission and see Appendix 3: Exhibit 4 for S&P's rating criteria for special purpose districts,.

[61] Information taken from a presentation by Angie Steeno, Denior Manager, Crowe Horwath. at the May 24, 2012 meeting of the Commission.

CHAPTER 4: Financial Practices in Tax Increment Financing

Documents and other information generally reviewed as part of the financial and underwriting review:

- Size and use of the property in the project area
- Five-year projected assessed valuation
- Project tax rates and underlying taxing industries
- The base year valuation
- Debt service schedule
- Ten largest taxpayers in the project area and the assessed value of the related property
- Tax collection rates
- Major pending assessment appeals
- Cumulative project area tax limit, if any
- Descriptor of tax sharing agreements with base tax units
- Expiration date of districts
- Additional bonds test and other legal covenants
- Bond indenture
- Consultant's Feasibility Report, if available

Bond Structure – Maturity and Debt Service Coverage Ratio

TIF bonds are customarily long term bonds with a debt service ratio of 125%. This means that the annual tax revenue will be at least 125% of the annual debt service payments. Other bond features, such as bank placement or variable rate demand bonds, may be part of the structure, but would be an exception for TIF bonds.

Maturity

Since state laws require a TIF district to be terminated within 25 years after the issuance of debt, the maximum maturity of bonds in Marion County would be 25 years, unless issued in a TIF district with no expiration date. The bonds could include a call provision, which allows the borrower to pay off the debt early without a penalty. A par call is usually 10 years; however, the issuance can include a shorter call provision of 5 – 7 years if, for example, projections indicate that tax revenue will be collected at a faster pace. An underwriter will advise the issuer to match the maturity of the debt with the useful life of the underlying assets. Since many TIF projects are for infrastructure, a long term debt matches the useful life of the underlying asset (streets, curbs, sidewalks and bridges).

Debt Service Reserve

A Debt Service Reserve (DSR) also is required to secure the bond payments and serves as a security feature. The amount of the DSR can be included in the borrowing as specified in the bond covenant and must be held for the life of the bond. The debt can be further secured by a moral obligation or other guarantee of the issuing municipality, a guarantee by the developer, or both. Revenue-supported debt, such as TIF and COIT, for example, commonly includes a DSR requirement as an additional source of security in case the underlying revenue stream is insufficient to meet debt obligations. A reduction of the amount of debt service reserves would result in a mandatory report (material event notice) to bondholders and would likely affect the issuer's credit rating and ability to issue debt in the future. This could result in the following

- Rating review and downgrade
- Higher borrowing costs
- Difficulty in attracting investors for future bond issuances

During the initial years of the project when improvements are being built, the incremental tax revenue may not flow immediately, so revenue projections typically allow two to three years before realizing the full revenue stream. For this reason, the debt issuance will include capitalized interest for the first two to three years. Since the bond issuance creates a long term commitment of the property tax revenue that will be used to pay it off, deals should be structured to ensure that the public benefits received from the deal are of similar duration.

The initial debt service reserve requirement can also be financed. The maximum amount that can be financed is determined by the IRS Test, which allows the lesser of:

- 125% of the average annual debt service
- Maximum annual debt service (MADS) or
- 10% of the par amount of the bonds

Marion County's Tax Increment Financial Practices

Debt Service Reserves Policy

The current debt reserves level for Marion County TIF funds is based upon:

- The DSR as required by bond documents.
- An Additional Reserve equal to 10% of the outstanding principal balance of the bonds.
- Stabilization Fund, also required by bond ordinance and designed to be used if revenues are insufficient or to the provider of applicable interest rate agreements.
- Appeals reserve predicated upon the number of outstanding property tax appeals.

Debt Service Coverage

As mentioned, the industry standard for Debt Service Coverage is 125%; however, legal, underwriting, and other factors may affect the level of prudent reserves. Marion County's internal policy for coverage is 150% to allow for security and protection against the variables discussed above. While the current debt coverage is calculated at 150%, the appropriate coverage level may vary by project or TIF district and depends on variable factors such as the diversity of the taxpayer base or the industry in which the primary taxpayers operate.

Project Type

Typically bonds are issued to finance one of two project types:

- *Project TIFs*: the tax increment is used to repay a portion of the debt associated with a project, after which the increment is passed to the base taxing units.
- *TIF districts*: the debt is used to fund multiple projects within an allocation area and the increment continues to be leveraged against additional debt or used toward pay-as-you-go projects.

The City's Credit

In evaluating the City's creditworthiness for a bond issued in 2011, Moody's identified the strengths and weaknesses of Indianapolis as follows:[62]

Highlights/Strengths:

- Strong and conservative (debt) coverage – 150%
- Sufficient levels of debt service reserves
- Stabilization fund
- Large and diverse tax base
- Income levels (per capita in Marion County)
- History of appropriation of moral obligation
- Manageable debt
- Local economy remains resilient even with economic downturn

Weaknesses:

- Pressured reserves as income taxes weaken
- Elevated debt level

[62] See Appendix 3: Exhibit 5 for Moody's credit rating of Indianapolis local public improvement bonds.

CHAPTER 4: Financial Practices in Tax Increment Financing

Marion County's Outstanding TIF Debt

In Indianapolis, eight TIF allocation areas have outstanding debt totaling $844.8 million, with annual debt service of $64.2 million in 2012. The projected 2012 tax revenue for those districts is $89 million. The shortest bond maturity is 2013 and the longest maturity is 2038.[63] Legally, each TIF district is a separate entity, and the debt coverage or expenditures for each is dependent on the revenue generated within it. However, there are consolidated TIF funds or Allocation areas, which include the pooled funding of two or more TIF districts. In a consolidated TIF, the revenue or fund balance can be disbursed to pay obligations of any TIF district included in the consolidated area. Figure 21 provides a summary of debt in Indianapolis TIF districts.

Figure 21

Summary of Debt in Indianapolis TIF Districts (in millions of dollars)

Allocation Area	Fund Balance as of 12/31/11	Outstanding Debt as of 12/31/11	2012 Debt Service	2012 Tax Revenue*	Years Until Last Bond Matures
Consolidated Allocation Area (Downtown)	137.6	677	41.1	63.4	26
Airport Economic Development Area	0.2	72.9	15.8	14.7	11
Harding Street RDA	7.3	38.7	3.9	5.9	12
Martindale-Brightwood Industrial RDA (Ertel)	0.4	5	-	0.5	1
86th St EDA (Dow Elanco)	-	22.4	0.9	0.7	23
Glendale Allocation Area	3.4	4.9	0.5	0.8	15
Fall Creek Housing Area HOTIF	6.3	14.7	1.3	1.7	18
Barrington HOTIF	0.4	2.5	0.1	0.2	3
Near East HOTIF	1.3	6.7	0.7	1.1	13
Indianapolis Total	**156.9**	**844.8**	**64.2**	**89**	**26**

*Based on 2012 billed taxes. Final receipts could be less.

[63] See Appendix 2: Exhibit 6 for Marion County's TIF summary, which includes county-wide TIF debt.

CHAPTER 5: Other Policy Considerations

Alternate Options for Evaluating and Maximizing TIF Policy

In the current tax policy and economic environment, there is value in the maxim "doing more with less." There is less property tax revenue flowing as a result of both the state takeover of school levies and the reduction of property taxes received as a result of the circuit breaker. Therefore, it is useful to consider ways to extend the reach of the incremental property taxes captured for Economic Development activity. Several recommendations were offered in the reports the Commission received from the Indiana Housing and Community Development Authority (IHCDA) and the Indiana Association for Community Economic Development (IACED).[64,65] Each will be discussed separately:

Potential Policy Solutions from IHCDA:

- The City can leverage more of its TIF revenue by using all or part of it to create a revolving loan fund to complement or replace the grants to private industry developers. Whenever it is possible to, extend a loan instead of a grant to recycle increment funding.
- Include deferred developer fees, paid later or at the end of the project, in structuring the underlying deals for TIF projects.
- Disaggregate components of a packaged project to allow for the use of multiple Economic Development tools.
- Perform a rigorous cost/benefit analysis in addition to the "But For" test.

Policy Considerations from IACED:

Expand the concept of Economic Development to Community Economic Development, to implement holistic, comprehensive and sustainable solutions to redevelopment and economic development. The presentation traced the development from characteristic Economic Development to Community Development to Community Economic Development. Each of the concepts is explained below:

Economic Development

Economic Development involves sustained, concerted actions of policymakers that promote the standard of living and economic health of a specific region. Policies to promote Economic Development mobilize land, labor, and capital resources to create and/or retain quality jobs, expand opportunities for small and medium-sized businesses, and increase the flow of capital into the region. Through the promotion of Economic Development, the creation of wealth is used to promote improvements in the quality of life for a community.

Community Development

While Economic Development is a top-down approach to development, Community Development is a bottom-up, grassroots process driven by communities themselves. Through Community Development, communities organize to plan for their future to accomplish goals such as a reduction in poverty; the creation of employment and economic opportunities; and other social, cultural, and environmental goals. Community Development involves developing local leadership and empowering citizens in the management and planning of community affairs. It addresses all issues relating to the public interest.

[64] Information taken from a presentation by Mark Young, Chief Operating Officer & Deputy Director, Indiana Housing and Community Development Authority at the May 17 2012 Commission meeting.

[65] Information taken from a presentation by Andy Fraizer, Executive Director, Indiana Association for Community Economic Development at the May 17 Commission meeting.

CHAPTER 5: Other Policy Considerations

Community Economic Development

Community Economic Development combines the principles and practices of Economic Development and Community Development. Community Economic Development is any action taken locally by a community to provide economic opportunities and improve social conditions in a sustainable way. The pillars of Community Economic Development include:

- Local control of community assets;
- Physical development;
- Asset development and wealth creation;
- Civic engagement and community building;
- Community convening;
- Household and family stability; and
- Job creation.

Community Economic Development projects should focus on increasing capital flow into the communities rather than focusing solely on increasing the assessed value (AV) of the property. They should result in the expansion of the skills and productive capacity of the local labor force, and the creation of a more competitive workforce to meet the needs of existing, expanding, and new businesses. Additionally, Community Economic Development should increase self-sufficiency among residents through initiatives that encourage entrepreneurship and small business growth in the communities and neighborhoods in or adjacent to TIF project areas.

In the absence of state and federal funding programs, TIF is the most important local tool for Community Economic Development. It can be improved to leverage a wide range of benefits beyond growth in property value. The "But For" question can more easily be observed when used for the types of development that are regularly underserved by the market, including:

- In blighted areas where infrastructure is outdated
- For environmental remediation
- For affordable housing near well-paying jobs
- Deteriorating main street shopping centers

The Wisconsin model offers insight into additional potential benefits of TIF, which policy makers can use to evaluate the strengths of proposed projects:[66]

> ***Potential Benefits of TIF Use***
>
> Too often, municipalities measure the benefits of TIF project plans only by estimating how much new property value will be created in the district. In fact, the outlay of TIF funds can leverage a wide range of benefits, beyond just property value growth. Understanding the full range of benefits that TIF use can create helps joint review boards better assess whether a project's costs outweigh its benefits.
>
> - ***Increased Property Value****:* In order for TIF to work, it must create new property value within a district. The taxes on this new property value pay for the costs of the development and, once all costs are repaid, the public benefits by having new property value added to the tax rolls, which allows for higher levels of government services or reductions in the tax rate.
>
> - ***Employment****:* In addition to adding property value, TIF can, and should, be used to create new jobs. Adding new jobs to the community creates new consumer income, which is then reinvested in local businesses. But not all job-creating projects are equally beneficial. Projects that create living-wage jobs accessible to unemployed or underemployed individuals generate larger net gains in consumer income and reductions in demand for various forms of public assistance than do projects that create low-wage jobs with no opportunities for advancement.
>
> - ***Catalyzing Further Development****:* TIF project proposals can also benefit the community by spurring further development. Projects which demonstrate the viability of a new market, such as early downtown condominium projects, spur future investment and eventually add property value well beyond that created in the first project. Also, providing TIF funding for small projects that can lead to much larger ones—for example, small business startup programs or business incubators—can leverage greater benefits for the community down the road.

[66] See the Center on Wisconsin Strategy's Efficient and Strategic TIF Use: a Guide for Wisconsin Municipalities, p. 12.

- ***Leveraging Other Monies***: TIF also can be used to fill financing gaps in projects that can leverage other monies, such as matching federal/state grants or foundation dollars. Likewise, TIF can be used to match individual homeowner or business expenditures on exterior upgrades to their buildings, leveraging greater consumer investment in communities. Using TIF to leverage other funds increases the amount of benefits generated per TIF dollar spent.

- ***Positive Externalities***: Positive externalities are the beneficial side effects of TIF use. For example, developments constructed to green building standards can reduce demand on overstressed power grids and wastewater treatment facilities. Likewise, TIF projects located near job centers or that include links to transit systems or spaces for shared vehicles can help reduce commuter traffic on congested roadways.

Base Taxing Unit Considerations

The Commission received presentations, testimony and interview information from staff and officials of base taxing units. A summary of the information, observations and potential policy considerations is provided below:[67]

Base taxing units may experience an increase in demand on services with the creation or expansion of a TIF district, particularly if it includes residential development. There is a potential increased demand for educational services, mass transit service, and library services. Note that for IndyGo, there would only be an impact if existing service is used to capacity and significant increases in ridership can have the effect of increasing federal funding; however, this increase is averaged, so modest increases in ridership will have no effect on increased funding. But where there is existing capacity in existing service, an increase in demand would not create a stress on services.

If new development is in a TIF district, the demand may increase without a corresponding increase in property tax revenues, as they are captured for the TIF increment. The theory of a temporary, although long-term tradeoff is not realized in districts where the TIF does not have an expiration date.

Currently, state law requires that units receive an Economic and Tax Revenue Impact Statement 10 days prior to the MDC hearing at which the Confirmatory Resolution is considered. At this point the taxing units have missed the opportunity to give feedback and input during the initiation stage.

The following are recommendations related to base taxing units.

- Implement earlier notification of base taxing units and community organizations that may be impacted by the creation or expansion of a TIF district.
- Include representatives of the local taxing units, such as schools, townships, public transportation and the library the TIF Project Team, to provide insight and feedback about potential effects and affinity of the project with the services the local taxing units provide.
- Ensure that base taxing units receive additional tax revenue that is not used by TIF districts for established projects, capital projects plans or when a TIF district has completed its cycle, by using AV pass through and establishing expiration date whenever.

[67] Information taken from presentations: by Jackie Nytes, CEO, Indianapolis Public Library, at the May 24, 2012 meeting of the Commission; Mike Terry, President and CEO, IndyGo at the May 31, 2012 meeting of the Commission.

CHAPTER 5: Other Policy Considerations

Infrastructure Considerations

In light of the extensive use of TIF funds for infrastructure, the Commission received a briefing from the Director of the Department of Public Works (DPW), which is primarily responsible for infrastructure in the city.[68] If DPW does not directly manage infrastructure building in TIF-related projects, it is still responsible for ensuring that the projects meet local code and requirements. DPW has performed very few TIF-funded projects, although it has completed a significant amount of work in TIF districts. DPW has used a total of $16 million, most of it for infrastructure on Georgia Street, the United Northwest Area (UNWA) district and for the Dow Elanco TIF.

The primary source of revenue for DPW is fuel tax, which is declining and therefore not a steady funding stream against which to borrow. DPW also provided a series of maps that detail the projects that were completed in existing TIF districts, though not funded by TIF revenue.

Lessons from Peer Cities

The DMD surveyed and researched TIF practices, procedures and lessons learned in eight peer cities:[69]

- Columbus, Ohio,
- Cincinnati, Ohio
- Cleveland, Ohio
- Kansas City, Missouri
- Saint Louis, Missouri
- Nashville, Tennessee
- Charlotte, North Carolina
- Milwaukee, Wisconsin

Among the five states, many of the practices were similar. Some of the differences of note are:

- Missouri includes eligible tax revenues, such as income tax, sales tax, gross receipts tax, portions of local sales, earnings and payroll taxes, in addition to property taxes. The funds are used to reimburse developer for eligible costs.
- Ohio includes the School Board among the approving agencies and Wisconsin uses a Joint Review Board, comprised of representatives of every overlapping tax district and one public representative, which has the authority to approve or deny TIF districts based on specific criteria.
- Charlotte, North Carolina uses a Synthetic Tax Increment Grant (STIG) as a public/private partnership tool for economic development and land use planning goals. The STIG is simply a reimbursement to private developers who construct public infrastructure or provide other public benefits. The developer must secure all financing privately. The city (and county) reimburses the developer from a fund composed of a portion of incremental taxes. Under this scenario, the city incurs no debt, does not issue credit enhancements or assume any risk related to the project; the amount of STIG that can be awarded is limited.

The report also included nationwide trends and issues related to TIF, as compiled by the Council of Development Finance Agencies. Recent issues with TIF nationwide include the following:

- Determining how much of the taxes can be captured and by whom: Some states already exempt specific types of taxes from capture (for example school taxes).
- Relaxing eligibility and expanding uses (e.g., for affordable housing) to allow TIF to be used in instances other than extreme dilapidation
- Determining the best way to define TIF district boundaries
- Longer duration limits, particularly during the downturn in the economy

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[68] Information taken from a presentation by Lori Miser, Director, Department of Public Works at the May 31, 2012 meeting of the Commission.

[69] Information taken from a presentation by Brooke Thomas, Senior Planner, Department of Metropolitan Development, at the April 12, 2012 meeting of the Commission.

CHAPTER 5: Other Policy Considerations

Expanding the Marion County Comprehensive Plan

All of the observations about TIF refer to its use within the framework or guidelines of a larger planning process. Several presentations and discussions have addressed the need to base decision-making about TIF on a countywide Comprehensive Plan.

The Department of Metropolitan Development, Division of Planning periodically prepares a land use plan for Marion County called the Comprehensive Plan for Marion County, Indiana. The Comprehensive Plan is required by state statute as a basis for zoning and must include objectives and policies for future land use development and development of public ways, place, land, structures, and utilities. It is also required by a number of state and federal grants programs in which the City takes part, such as Community Development Block Grants, Home Grants and federal highway funding.

The most recent update of the Comprehensive Plan is called Indianapolis Insight.[70] The public input process of the Comprehensive Plan Update began with four Town Hall Meetings in late September and early October 2000. Although the Town Hall Meetings were effective, it was recognized that they did not encourage in-depth analysis; therefore, eight issue committees were formed to provide additional analysis. The eight committees formed were:

- Cultural, Social and Education
- Economic Development
- Environment, Parks and Open Space
- Land Use Standards and Procedures
- Neighborhood and Housing
- Redevelopment
- Regionalism
- Transportation and Infrastructure

The initial portion of the plan, the Community Values Component, was adopted by the Metropolitan Development Commission in 2002. The plan's remaining three parts; the Land Use Component, Environmentally Sensitive Areas and Critical Area text; were adopted by geographic area in 2005 and 2006. The Comprehensive Plan covers those portions of the county outside the boundaries of the neighborhood and corridor plans. Comprehensive plans were previously adopted in 1965, 1969, 1977, 1984 and 1991-93.

Comprehensive Plan Segments
Comprehensive plan segments are land use plans that are prepared for portions of Marion County. These are primarily neighborhood, commercial area, and corridor plans but also include, for example park master plans and the Official Thoroughfare Plan.

The preparation of a comprehensive plan segment involves area stakeholders in a community participation process. In preparing a plan segment, staff holds a series of public meetings seeking the input of people who live, work, and own property in the area.

Redevelopment and economic development plans must be consistent with the Comprehensive Plan and the Comprehensive Plan Segments. If TIF allocation areas are designated within the redevelopment / economic development areas, expenditures of the TIF funds must be supported by the redevelopment / economic development plan.

[70] See the Comprehensive Plan, Indianapolis Insight.

CHAPTER 5: Other Policy Considerations

Given that the Comprehensive Plan is primarily a land use document, the City-County still does not have a holistic planning process, which takes into current and long term vision and needs for county wide Coummunity Economic Development . It does not include a Comprehensive TIF Plan. Additionally, while it has done work around the comprehensive elements in Community Economic Development, there remians a need for a County-wide Comprehensive Plan that establishes priorities, identifies and assigns resources, including funding and staffing needs, and implements a plan that holistically addresses local needs in the following areas:

- Civic engagement and community building
- Economic Development
- Environment, Sustainability, Parks and Open Space
- Land Use Standards and Procedures
- Neighborhood development and affordable housing
- Redevelopment
- Regionalism
- Transportation
- Infrastructure and Capital Planning
- Job Creation and Training

Future Policy Considerations

In a discussion about the ability to use TIF funds for infrastructure and potential uses of TIF funding for programs or capital projects of taxing units, the Library and IndyGo identified infrastructure activities that are eligible for use of TIF funds:

- Infrastructure related to libraries to the extent the projects are in a TIF area or directly serve or benefit a TIF area
- Library computer training labs, job centers, language lab and computer classes, and digital learning labs
- IndyGo capital purchase for buses and equipment. IndyGo is currently using federal monies given for capital purchases, to fund operations. While this is allowable under federal rules, the use of that money for operational expenses precludes the ability to fund bus replacement. The IndyGo President recommended that the City consider look at the opportunity to use funds toward transit capital and infrastructure.

Public and transparent prioritization of proposed TIF projects and districts would help to allocate the limited capacity of TIF as an Economic Development tool, even if the exact prudent limits are not known. Other finite resources are allocated by Indianapolis governments using transparent periodic (e.g. annual) review and approval processes consisting of application submissions that are scored according to established criteria and collectively ranked. The awarding of crime prevention and arts grant funding are two examples of this approach. Adoption of a similar transparent process for the review and approval of new TIF districts would increase transparency and public confidence that valuable TIF capacity is deployed fairly and targeted to maximize benefits and reduce associated risks. The rapid establishment of a comprehensive county-wide Economic Development plan and capital plan for public infrastructure is critical for prudent review, ranking and approval for TIF projects and districts.

CHAPTER 6: Policy Review Summary

This chapter provides a brief summary of the answers to the policy and procedure questions raised by City-County Council Resolution 36, 2012.[71]

1) Policies and past practices used in Marion County for the establishment of TIF districts and projects therein:[72]

Policies and practices for the establishment of Tax Increment Financing projects and districts in Marion County are subject to state law, under Indiana Code (IC) 36-7-15.1, which is specific to Marion County and its excluded cities; however, the excluded cities may choose to be governed instead by IC 36-7-14. Definitions and use of Tax Increment Finance are subject to rules of the Department of Local Government Finance (DLGF) and the State Board of Accounts Administrative Code under 20 IAC Chapter 2 and 50 IAC Chapter 8, respectively. References to Tax Increment Financing in local ordinance are found in Sec 231-305 (b) (4) and (b) (6), regarding the responsibility and authority of the Department of Metropolitan Development.

By state law, the Metropolitan Development Commission (MDC) serves as the redevelopment commission of the Consolidated City of Indianapolis. The MDC has jurisdiction over the redevelopment district, a special taxing district which comprises the same boundaries as the consolidated city.

The MDC may establish within the redevelopment district, targeted economic development areas or redevelopment areas. The Indiana Code defines a redevelopment area as "an area in which normal development and occupancy are undesirable because of lack of development; cessation of growth; deterioration of improvements; character of occupancy; age; obsolescence; substandard buildings; or other factors that impair values or prevent a normal use or development of property." The Indiana Code defines an economic development Area as an area that will create job opportunities or attract, expand or retain business enterprise in a city. Redevelopment and Economic Development activity policy is led by the Mayor and DMD staff, which also staffs the MDC.

2) Policies and past practices used in Marion County for the expenditure of TIF district funds and the issuance of debt backed by TIF district funds:[73]

In a perfect world, municipal leaders would rather see benefit derived from private investment without having to provide public financing. Unfortunately, in today's competitive world, municipalities that take an inactive approach to economic development are losing significant job and capital investment opportunities. It is for this reason that the City of Indianapolis has chosen to be an active participant in certain projects because of their quality of life benefits, job creation, expansion of the property and income tax base, and other important amenities.

Today, private development companies are also going through a tough time economically and as a result they are trying to do deals with the highest return on their investments. Developers recognize their value to a community and have a lot of options where they can invest their money. For example, developing an office building in a downtown or urban core is tougher to do financially because of parking requirements. Compare this to the expanse of property available in the suburbs, and a municipality is faced with having to provide perhaps more incentives in order to get the downtown deals done.

[71] See Appendix 1: Exhibit 1, City-County Council Resolution 36, 2012.
[72] See Appendix 1: Exhibit 3, IC 36.7.15-1.
[73] Information taken from a presentation by Deron Kintner Executive Director, Indianapolis Bond Bank, at the April12, 2012 Commission meeting.

CHAPTER 6: Policy Review Summary

There are two types of projects that get consideration from an economic development or redevelopment stand point. The first type is one that was brought to the city by a private entity. These projects typically do not get public investment. The second project type is a project that is done on city-owned land. These projects go through a Request for Proposal (RFP) process and the City selects the one that is the best fit financially. With respect to the latter, there are certain factors that go into the City consideration of the project:

- But For Test: “But for” our investment, is the project going to happen?
- Is the project transformational? It must have a significant employment component, substantial capital investment, land use improvements, corporate need, and/or valuable and needed amenities.
- Is it a prudent financial decision? Will the project make enough increment revenue to cover the bond debt and is there any return on investment?

3) Current Marion County TIF districts and associated fund balances, debt obligations and past expenditures:

There are a total of 45 TIF districts in 21 allocation areas in Marion County. Of those, 33 districts in 16 allocation areas are located in Indianapolis. Twelve districts in 5 allocation areas are located in the excluded cities of Lawrence, Speedway and Beech Grove. Four of Indianapolis’ TIF districts are dormant, or partially dormant, and currently pass all AV through to the base units. The pass-through decision is made on a yearly basis and can be changed if the MDC determines that it will issue debt (subject to approval of the City-County Council) or accumulate funds for pay-as-you-go projects, which does not require Council approval. There are 12 TIF districts (11 in Indianapolis and 1 in Lawrence) with no expiration date. The earliest existing debt maturity is 2013, and the latest is 2038. Expected tax revenue in 2012 (after circuit breaker reductions) totals approximately $99.4 million.

Cumulative 2012 debt service is calculated at approximately $70 million. In general, each TIF is a separate entity, and the debt coverage or expenditures for each is dependent on the revenue generated within it. However, there are consolidated TIF funds, which include the pooled funding of two or more TIF districts. In a consolidated TIF, the revenue or fund balance can be disbursed to pay obligations of any TIF district included in the consolidated area.

The Marion County TIF Summary provides allocation area information.[74] Detailed information about each TIF district and allocation area is provided in the TIF Briefing Book.[75]

4) Need for new methods to increase transparency of Marion County TIF districts’ funds and the expenditure of those funds, including the establishment of an online database of TIF districts’ funds and expenditures and periodic reporting of TIF districts’ financial data to the Indianapolis City Controller, Marion County Auditor, the Indianapolis-Marion County Council and taxing districts impacted by TIF:

Senate Enrolled Act (SEA) 19-2012, passed during the 2012 session sets new annual reporting requirements. The new provisions, as prescribed in IC 36-7-15.1.36.3, are effective July 1, 2012. They require the MDC to submit an annual report to the Mayor and the DLGF that provides names of Commission members, officers, employees and their compensation, and the amount and general purpose of expenditures made during the preceding year within 30 days after the end of each calendar year. The reporting to the DLGF will provide for online access.

[74] See Appendix 2: Exhibit 6 for the Marion County TIF Summary.
[75] See Appendix 5 for the TIF District & Allocation Area Reports.

Prior to the enactment of SEA 19-2012, there were no standard reporting or accounting requirements specifically for Tax Increment Finance activity.[76] In several instances, information about TIF activity that occurred in distant history was either not available or required significant effort to retrieve. There were no standard reports for providing TIF allocation fund balances, and there appear to be few records or tracking of performance standards that were established during the creation of TIF projects. In addition, a comprehensive list of direct funding from the TIFs is currently being compiled manually, as those items appear not to have been tracked on an ongoing basis.

5) Need for new methods to increase accountability, including the establishment of new performance standards in the establishment of TIF districts to ensure targeting of TIF districts to revitalize blighted areas of Marion County and job creation;

and

6) Need for performance goals for private development that receives TIF and methods to provide consequences for the failure to achieve those goals:

Currently, there are no standard or periodic reports that track, measure or monitor the outcomes of TIF projects in terms of jobs created, improvements made, challenges or difficulties faced. There is no regular reporting or monitoring of metrics.

Establishing performance standards and expected outcomes at the outset of the TIF creation is a key factor to create a basis for monitoring outcomes and determining success in redevelopment or economic development. They provide a basis for reference in determining spending priority, particularly in instances when projects are funded on a pay-as-you-go basis. Performance standards also provide a basis for evaluating future projects. A uniform application, pro forma template, and redevelopment plan for each TIF project are needed to enable such record keeping, record institutional history, and evaluate TIF outcomes.

Some examples of widely recognized performance metrics, as identified by City staff and in TIF literature include the following: [77]

- Completion of Specific Infrastructure Projects[78]
  - Sewer expansion and repair
  - Storm drainage
  - Street construction and expansion
  - Park improvements
  - Curbs and sidewalks
  - Traffic control
  - Street Lighting
  - Landscaping
  - Environmental Remediation
  - Bridge Construction and Repair
  - Parking Structures
  - Libraries
  - Emergency Service Facilities
  - Schools
- Ability to meet and make bond/financing payments
- Jobs, by type and compensation level

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[76] See Appendix 1: Exhibits 2 (SEA 19-2012) and 3 (IC 36.7.15-1).

[77] Information taken from a presentation by Maury Plambeck, Director, Department of Metropolitan Development, at the March 29, 2012 Commission meeting.

[78] Examples taken from Tax Increment Finance Best Practices Reference Guide, Council of Development Finance Agencies (CDFA) and the International Council of Shopping Centers (ICSC), © 2007.

- Residential Development
- Commercial Development (retail, restaurants, etc.)
- Industrial Development
- Increase in Tax Base AV, including AV outside the allocation area
- Capital Investment
- Property and Income Taxes
- Minority-, Women-, and Veteran-Owned Participation and Opportunities

In response to a request during the first meeting of the TIF Commission, the Department of Metropolitan Development provided a report of jobs created by selected TIF projects.[79]

7) Need for a comprehensive economic development plan to ensure the creation and development of TIF districts and projects therein in a coordinated fashion consistent with economic development goals of job creation and community revitalization:

The Department of Metropolitan Development, in 2000-2006, generated "Indianapolis Insight: the Comprehensive Plan for Marion County, Indiana." [80] This plan is composed of two components: a Community Values Component that contains planning objectives for the entire county and a Land Use Component that contains information about recommended land uses and environmentally sensitive areas on a township by township basis.

"Indianapolis Insight" is not in the process of being updated, nor is an update anticipated in the next few years. The current plan is still viable and the Department has not received any public inquiries requesting updates.

Technically, the "official plan of record" or Comprehensive Plan for Marion County is a collection of more than eighty documents that have been adopted by the Metropolitan Development Commission as Comprehensive Plan Segments.[81]

A comprehensive plan is required by state statute (Indiana Code 36-7-4-501 through 512) as a basis for zoning and must include objectives and policies for future land use development and development of public ways, places, land, structures and utilities. These plan segments are guides for anyone making a decision about the use of a property. They are useful for property owners, developers, neighbors and neighborhood organizations, City staff and City boards and commissions. They are used to evaluate rezoning applications, to project future population and employment concentrations, and prioritize capital improvements.

Comprehensive Plan segments are always being created or updated. Currently plans are being updated for Broad Ripple, East 38th Street, Mapleton Fall Creek and the Near Westside.

By state code, once a jurisdiction has a comprehensive plan, it doesn't ever have to update it. Seven to ten year cycles are typical for plans, for example, DMD is currently updating plans that are from 1991, 1994, 1996, and 1997. However, in a very stable area, a plan may not need to be updated for a very long period. The frequency of updates depends on the specific needs of the area.

Typically neighborhoods request to work with DMD to develop plans for their areas. When evaluating these requests, DMD looks for neighborhoods with a combination of enthusiasm to do a plan, need for a plan, and some capacity to implement the plan upon completion. Some of the factors used to determine the need for a plan include the amount of change in the area since the previous plan was

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[79] See Appendix 3: Exhibit 2 for examples of TIF-funded projects in Indianapolis.
[80] See Indianapolis Insight: Community Values Component and Land Use Planning Handbook.
[81] See segments of the Comprehensive Plan.

done, major upcoming projects, major new partners in the area, and the neighborhood health indicators (a map that aggregates eleven factors: education level, income, poverty, unemployment, demolition permits, vacant/boarding orders, repair orders, long-term utility disconnects, foreclosures, new building permits and assessed valuation).

All of the observations about TIF refer to its use within the framework or guidelines of a larger planning process. Several presentations and discussions have addressed the need to base decisionmaking about TIF on a countywide Comprehensive plan.

Given that the Comprehensive Plan is primarily a land use document, the City-County still does not have a holistic planning process, which takes into account current and long-term vision and needs for county-wide Community Economic Development. It does not include a Comprehensive TIF Plan. Additionally, while it has done work around the comprehensive elements in Community Economic Development, there remians a need for a County-wide comprehensive plan that establishes priorities, identifies and assigns resources, including funding and staffing needs, and implements a plan that holistically addresses local needs in the following areas:

- Cultural, Social and Education affairs
- Economic Development
- Environment, Parks and Open Space
- Land Use Standards and Procedures
- Neighborhood and Housing
- Redevelopment
- Regionalism
- Transportation and Infrastructure
- Infrastructure and capital planning

Under existing state code, TIF revenue (up to a maximum of 15% of allocated tax proceeds annually) can be used for training, retraining and workforce development. The MDC has the ability to implement or contract for implementation of programs that will provide the ability for residents to become more competitive. Workforce readiness gaps can be addressed through the use of training, particularly in the business industries in which Marion County competes more heavily.[82]

8) *Need for periodic review of established TIF districts and projects therein to ensure performance towards economic development goals:*

New state-required annual reporting will provide for periodic review of the projects.[83] In addition, the Commission recommends the creation of a TIF database and tracking system for purposes of collecting and maintaining data and providing a means for monitoring progress toward the goals and objectives of the TIF.

[82] See Appendix 1: Exhibit 5. IC 36-7-25**.**

[83] See Appendix 1: Exhibit 2, SEA 19-2012.

9) Impact of TIF districts on Marion County taxing districts that depend on property tax revenue and the need to mitigate negative impact to those taxing districts, including development of standards and methods to return excess TIF district funds to those units:

With the implementation of the 2008 property tax law, TIFs have a more direct impact on revenue to local government units.[84] Prior to the implementation of the property tax circuit breaker, local governmental units whose budgets consist of significant amounts of property taxes were able to collect the entirety of the tax levies permissible under state law. While some property taxes that would otherwise go to local government units were captured by TIF districts, property tax rates could increase to ensure that the entire levy was collected. With the institution of circuit breaker tax caps, however, local units have seen a marked decline in property tax revenue, falling significantly short of permissible levy amounts. Importantly, local units must still provide public services to new developments inside TIF districts, even though those developments' property taxes are not directed to the local units that provide those services.

The local government in Marion County is in a funding crisis. Since 2008, local government units in Marion County (such as the City and County, schools, libraries and IndyGo) have collectively lost more than $366 million in property tax revenue due to circuit breaker tax caps. County Option Income Tax (COIT) revenue has declined by $85 million from its peak. With property tax caps in effect, one of the few ways to increase property tax revenue is by increasing the amount of taxable property, either through new development or improvements to existing property.

Base taxing units may experience an increase in demand on services with the creation or expansion of a TIF district, particularly if it includes residential development. There is a potential increased demand for educational services, mass transit service, library services. Note that for IndyGo, there would only be an impact if existing service is used to capacity and significant increases in ridership may have the effect of increasing federal funding; however, this increase is averaged, so modest increases in ridership will have no effect on increased funding. But where there is existing capacity in existing service, an increase in demand would not create a stress on services.

If new development is in a TIF district, the demand may increase without a corresponding increase in property tax revenues, as they are captured for the TIF increment. The theory of a temporary, although long-term tradeoff is not realized in districts where the TIF does not have an expiration date.

Currently, state law requires that units receive an Economic and Tax Revenue Impact Statement ten days prior to the MDC hearing at which the Confirmatory Resolution is considered. At this point the taxing units have missed the opportunity to give feedback and input during the initiation stage.[85]

[84] See Appendix 3: Exhibit 3, Overview and Highlights of HEA 1001- 2008.

[85] See Chapter 3 for a more detailed discussion of the fiscal impacts of TIF on base taxing units.

10) Need to establish methods to dismantle TIF districts that are no longer needed and/or address projects therein that are not achieving economic development goals:

While the Commission recommends sunset dates for all TIFs, it recognizes that there may be circumstances where extension or call for perpetuity may exist. The following discussion addresses some reasons that may be considered for not setting sunset dates for a TIF district or allocation area:

Reasons for Keeping a Dormant TIF
A TIF district becomes dormant when all debt has been served and there are no current projects planned within the allocation area. At that point, the municipality can roll the tax increment back into the base as "pass through." Base taxing units now realize the benefit of the increased AV resulting from the economic development activity within the TIF district. As a result, taxpayers' rates are decreased, and the taxing units receive additional tax revenue and reduced circuit breaker credits (all things remaining equal). Terminating the TIF district to allow permanent pass through of the increment back into the base is an option. Yet, there are very good reasons for keeping a TIF allocation area alive.

- *Flexibility for Future Projects*. There are still potential project sites within the area that, while no current development plans exist, could be future projects. A city wants to remain flexible should these projects occur.
- *Impossible to Predict What the Next Project Could Be*. There is little to no degree of certainty that a TIF district will no longer be needed in the neighborhood for future public benefit.
- *TIF Designation Enhances Community Development*. The neighborhood association or community development group may want the TIF to stay in place to help them build on streetscape plans and to market real estate to investors and brokers.
- *TIF Pass-Through Goes Back into Taxing Units*. You can accomplish the exact same thing by passing the AV through to the base each year and retain the flexibility described above.

Reasons for Keeping a TIF in Perpetuity
Similar to the reasoning for retaining a dormant TIF, it also can be advantageous for a TIF to exist in perpetuity rather than have a definitive expiration. As with dormant TIFs, the same objectives can be accomplished by passing through the AV all while retaining the flexibility of having the redevelopment tool of TIF if needed for an important project.

- *Same as the "Reasons for Keeping a Dormant TIF" above*.
- *Certain areas are so important yet need development stimulus*. A city should retain its most effective development tool for these areas.
- *Infrastructure Has a Finite Lifespan*. Over time, infrastructure deteriorates, and TIF may be the best source for improvements especially if it was used to build the infrastructure in the first place.
- *It Takes Money, Time, and Resources to Create a New TIF*. Not only does it cost time and money but a city loses its financial benefit of what the incremental AV is at that point. Leaving a TIF in place is one way a city can work with neighborhoods on an ongoing basis to remain ready for future generations of community development participation.

The increased transparency that will be achieved with new and additional reporting requirements, as well as a better-defined TIF approval process, will assist with tracking and monitoring TIF project and TIF district performance relative to the commitments made at the start of the TIFs. In addition, the Commission's recommendations include the establishment of accountability and remediation requirements that address non-performing or underperforming TIF projects or districts (See the following section "Conclusions and Recommendations," specifically recommendations 1j, 2d, and 2e).

CONCLUSIONS & RECOMMENDATIONS

This section outlines the Indianapolis-Marion County Council Tax Increment Financing Study Commission's conclusions and recommendations regarding TIF policies in Marion County. The Commission's charge was to examine Economic Development policies and procedures related to the use of TIF in Marion County; to hold public hearings and take public input; and to report to the Council its findings and recommendations for improvement.

Conclusions

Over the course of ten meetings and more than 24 hours of discussion, presentation and public testimony, the Commission has concluded the following:

- Tax increment financing is a tactical, time-limited tool for Economic Development.
- While TIF provides the City-County with a tool to compete with other cities both within and outside the state, the optimal value of its use lies in realizing the greatest amount of public benefits distributed widely among the local community.
- A comprehensive planning process requires comprehensive participation of all the stakeholders.
- Passing the "But For" test is only part of the TIF project evaluation process. A decision about a project must include other qualitative and quantitative measures that address the public benefit of using TIF and avoid the creation of "TIF entitlement."
- Businesses may rely on TIF to help fill gaps in funding. The County should rely on TIF to help fill gaps in employment, small and medium business development, entrepreneurial capacity, affordable housing, job training and retraining, environmental remediation, redevelopment, and community building.
- TIF is a significant tool, but not the only one in the Economic Development toolbox.
- Currently, the Consolidated City has an $844 million, 26-year commitment to tax increment financing, which relies on nearly 10% of the assessed value of property countywide.

Recommendations

The Commission's ultimate objective is to provide constructive methods to improve the effectiveness of an important Economic Development tool and, because of recent changes in the property tax landscape, suggest ways to optimize the use of TIF revenue for Economic Development, while releasing excess AV to the base taxing units, to facilitate the provision of services they are responsible for providing. The following recommendations are not exhaustive, but representative of the thoughtful and informative exchange that has taken place during the Commission's deliberations.
The recommendations fall into four broad categories:

1) Clearly define the management and decision-making process for using Tax Increment Financing.
2) Establish transparent financial practices, accounting, reporting and monitoring.
3) By March 1, 2013, develop a strategy to analyze the segments of the Comprehensive Plan, including Neighborhood Plans, to determine areas that need redevelopment or economic improvement. The strategy should identify resources, time-lines, and budgets necessary to develop a county-wide Comprehensive Plan segment for creation of future redevelopment and economic improvement areas.
4) Request changes to policies or requirements of state law.

In detail, the Commission's recommendations are as follows:

1) **Clearly define the management and decision-making process for using Tax Increment Financing.**

   Specifically, the process should:

   a) Be transparent and consistent with evaluation methods that measure proposed and new TIF decisions against the existing capacity in the county.

   b) Use tax increment financing in a limited capacity that is in concert with, but does not displace, the development and execution of a comprehensive countywide plan for Economic Development and public infrastructure maintenance.

   c) Identify targeted and narrowly tailored geographic allocation areas that provide a funding source for Economic Development activity and preserve the property tax dollars that would otherwise flow to base taxing units.

   d) Minimize the duration of the TIF districts to the amount of time reasonably required to accomplish both the Economic Development goals of the project and to provide for the return of incremental assessed value to the base taxing units as soon as possible.

   e) Focus the use of tax increment financing for redevelopment projects and in redevelopment areas in the county. This includes projects or developments that address blight, abandoned and vacant properties, environmental remediation and other economic development projects that address market failures.

   Further, the Commission recommends that the Metropolitan Development Commission should:

   f) Exercise a higher level of scrutiny for approval of economic development projects than for redevelopment projects. Economic development projects must be justified by specifically enumerated benefits that align with the comprehensive county plan, community development plans and the principles of Community Economic Development.

   g) Contract with eligible entities for educational, work training and worker retraining programs to increase the skills and productive capacity of the local labor force; create a more competitive workforce to meet needs of existing, expanding and new businesses; and enable county residents to compete successfully for the jobs that will be created by the use of tax increment financing revenue.

   h) Include local hiring goals in the declaratory resolution to promote local hiring, promote local employment and ensure that the City-County Council and the citizens of the City of Indianapolis are informed about employment opportunities and job creation resulting from TIF-funded activity.

   i) Include minority and women-owned business enterprise participation goals in the declaratory resolution.

   j) Include claw back provisions in project agreements that are subject to effective oversight and ensure that non-performing projects are quickly remediated through the return of TIF funding when performance goals are not achieved.

   k) In addition to financial feasibility studies, implement the use of robust market and real estate feasibility studies to evaluate and choose TIF projects that catalyze development and residential settlement within the county and that do not contribute to sprawl and movement of businesses and residents to surrounding counties.

   l) Engage a community development organization to administer a revolving loan fund, funded by TIF revenue, which allows for access to capital in markets where it may be more difficult for local and small businesses to obtain capital and allows the City to leverage additional use of TIF revenue.

m) Require a cost/benefit analysis, including a discussion of the following as part of all TIF project applications:

   i. Use of a project TIF as compared to a TIF district, which has a wider footprint.

   ii. A description of how the project plan aligns with the county-wide comprehensive planning document

   iii. A description of how the project plan aligns with the local/neighborhood planning document.

   iv. A market analysis of the existing, possible or likely future free market unsubsidized private development in the proposed geographic area.

   v. Analysis of recent changes in the assessed value in the geographic area of the proposed project.

n) Commission a study of the impact of TIF on local property values, holding all things constant. The analysis would address the question, “Does TIF promote growth in AV of areas surrounding the allocation area?” This study would provide additional insight to preliminary data that shows a 5.7% increase in TIF districts’ net assessed value (AV) annual growth rate as compared with 0% growth in the rest of the county.

o) To the greatest extent possible, employ the use of alternative or complementary Economic Development tools and infrastructure funding prior to the use of TIF.

p) Create, in concert with the Controller, the DMD, the Bond Bank, and the DPW, a uniform TIF application, employing best practices. The TIF application will require the collection of all information needed to evaluate the proposed project and all data elements required for a TIF database, including a financial pro forma.

   Prohibit the inclusion of assessed value in the increment of a new allocation area if the parcels contain improvements that are already completed or in process when the Declaratory Resolution is passed.

2) Establish transparent financial practices, accounting, reporting and monitoring, specifically that: the MDC, in coordination with the Controller and Bond Bank:

   a) Engage a third party review of all TIF financials and documentation to establish a uniform documentation, reporting, tracking and monitoring system and to document Marion County process and practices in a Marion County TIF Handbook; Create a uniform application that will be used to capture TIF information, preserve institutional memory and monitor project outcomes (number of jobs, for example) in comparison to agreed upon outcomes.[86]

   b) Build a TIF database for the collection of consistent information which can be used in the evaluation and analysis of TIF transactions and data.[87]

   c) Create and maintain a TIF website which would be a repository of the TIF data and information made available to the public.

[86] See Appendix 3: Exhibit 8 for a preliminary list of application elements to be collected.

[87] See Appendix 3: Exhibit 9 for a preliminary list of database items to be collected.

d) Establish semi-annual local reporting requirements in addition to the new requirements established by Senate Enrolled Act (SEA) 19-2012 to include a three-year capital spending plan for pay-as-you-go projects and other estimated spending for eligible uses of TIF funds. Include progress reports on the commitments and goals established with the TIF (number of housing units or jobs, for example). The mid-year report would be presented at a meeting of the MDC, during which the MDC will receive a written and oral report from the Bond Bank Director and the City Controller at least 7 days prior to voting on the annual resolution sent to the Auditor which determines if there are excess funds in the TIF accounts that can be used in the upcoming budget.

e) Establish accountability and remediation requirements for the-performance of TIF districts. Performance should be measured against stated goals at the time the project or district was established. Non-performing TIF projects and districts should be quickly addressed with progressive steps to reduce and minimize financial exposure from non-performing projects and districts, up to and including requiring the return of TIF funds from entities.

f) Expand Community and Base Taxing Unit Involvement in the TIF process by:

   i. Issuing earlier notification of base taxing units and community organizations that may be impacted by the creation or expansion of a TIF district.

   ii. Expanding the reporting requirements to local taxing units to provide a clearer picture as to the impact of the establishment or expansion of a TIF district. This includes projecting foregone revenue for all taxing units.

   iii. Including representatives of the local taxing units, such as schools, townships, public transportation and the library on the TIF Project Team, to provide insight and feedback about the potential effects and affinity of the program with the services they provide.

g) Implement Standard Financial and Credit Management Practices and Policies. The Commission recommends the following policies with regard to fund balances, debt reserves and annual Assessed Value pass-through:

   i. Reserves and Fund Balance should be determined by establishing all reserves required by bond covenants, an allowance for property tax appeals and additional reserves equal to no more than ten percent (10%) of the outstanding principal amount of the bonds. Review outstanding appeals at least annually to adjust the appeals reserve amount.

   ii. The MDC should pass-through all AV in excess of the amount that will generate one hundred fifty percent (150%) of the of TIF revenues necessary (if applicable) to satisfy the annual bond debt service.

   Unless justified by financial or economic events, the MDC should make all efforts to pass through all excess AV to the base taxing units.

   Pay as you go capital expenditures and/or other eligible expenditures should be funded by the remaining unreserved fund balances after the reserves and pass through allowance determination methods described above are completed.

h) Establish Sunset Dates for all TIFs. The Commission recommends the following with respect to TIF districts that are dormant or have no mandatory expiration:

i. Dormant TIF districts: In the absence of overwhelming justification otherwise, the Commission recommends the termination of all dormant or partially dormant TIF districts.

ii. TIF districts with no required sunset date: In the absence of overwhelming justification otherwise, the Commission recommends the establishment of termination dates based on the last maturity date of the related bonds.

iii. TIF districts without outstanding debt and which are used on a pay-as-you-go basis: in concert with appropriate community development organizations and in alignment with a comprehensive planning document, the MDC should establish a capital spending plan and sunset date no longer than 20 years into the future.

3) Recognizing that the optimal use of TIF as an Economic Development tool is limited unless wider environmental circumstances are addressed, the Commission recommends that the MDC engage an audit of the existing comprehensive plan to determine how development has progressed since the most recent plan; and to establish a collaborative working group consisting of representatives of DMD, DPW, Office of Finance and Management, urban planning experts, community and neighborhood development organizations, representatives of the base taxing units, and others, as appropriate, to work with the auditor/facilitator to make and implement a plan to create a strong, broad and comprehensive county-wide planning document, as well as a regular and periodic method for keeping it current.

4) Request that the General Assembly change the law regarding the following:

a) Allow the establishment of TIFs that capture a specified percentage of the incremental revenue (in addition to current law which permits the pledge of less than 100% of the incremental revenue at the financing stage).

b) Require earlier notification of base taxing units and community organizations that may be impacted by the creation or expansion of a TIF district.

c) Allow the capture of all or a part of local income taxes of non-resident employees in a TIF district to contribute to public services provided to the district. To avoid creating an incentive for establishing random TIF districts, this might be best considered in an economic development TIF that is employer specific.

d) Require Council approval for any transfer from a TIF account that exceeds $1 million, unless it is a bond payment.

e) Refer any outstanding questions or issues from the Marion County TIF Commission deliberations to the Indiana General Assembly for review and research as part of the quadrennial fiscal analysis report on the Marion County Redevelopment Code.